FINANCIAL DEVELOPMENTS

IN

MODERN INDIA,

1860--1924.

BY

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WITH A FOREWORD

BY

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vote for the increased taxation required to meet it. It will be a valuable training, when easier times come, for the Indian Legislatures to have had driven home to them by stern practical experience that more expenditure means more taxation, that Governments have no bottomless purse out of which benefits can be showered on a grateful electorate without corresponding increases in revenue, and that ways and means must be found and adequate taxation imposed before it is safe to launch out on ambitious programmes of public expenditure, however beneficial.

I have read Mr. Vakil's book with great interest and admiration for the industry with which he has conducted his researches and the skill with which he has marshalled his results. It is natural that I should find views expressed by him here and there which do not command my assent, even some which provoke my strong dissent. If I may venture on one or two criticisms, I would suggest that in his zeal for the new dispensation he is sometimes less than just to the achievements of those who have been responsible for India's finances in past years. Here and there I am reminded irresistibly of the attitude towards history of the authors of the chronicles of the Kings of Israel and Judah. They were impelled to recognise that this or that king "did that which was right in the sight of the Lord" but their zeal for the reformed religion of Judah made them add "nevertheless, in his days the high places were not taken away". I endorse Professor Vakil's

belief in the advantages which flow from imposing upon the executive the necessity of justifying its financial proposals to a representative body apart from itself. No one who has seen the good work which is being done by the Standing Finance Committee and the Public Accounts Committee of the Legislative Assembly in examining proposals for new expenditure and scrutinising the accounts of closed expenditure can fail to perceive that such control is in every way beneficial both to the efficiency and to the economical working of the administration. But this fact does not necessarily justify a complaint of the absence of parliamentary control over Indian finance in 1860.

The financial administration of India in the past sixty or seventy years cannot, I think, be justly accused of extravagance or of wasteful expenditure or of imposing unduly heavy burdens on the people of India. On the contrary, the particular criticism which its defenders will perhaps have most difficulty in meeting is rather that in its anxiety to keep taxation low it may have been unduly cautious in embarking on large projects involving heavy outlay for the development of India. But even this criticism contains traces of the habit I have alluded to of projecting the ideas of the present into the conditions of the past. Probably no government in the world has ever approached more closely than the Indian Government in the period 1860 to 1900 to the ideal of economical government, beloved of the Manchester school.

India enters on the period of reforms with a financial heritage which other countries may well envy. Previous generations of financial administrators have endowed India with a fine net-work of Railways and have developed a system of irrigation works which is second to none. They have left India, in spite of the Great War, with a debt whose smallness is its most conspicuous feature. At the beginning of the war the whole of the national debt of India was represented by productive assets. To-day, as the result of the war and of the post-war deficits, 228 crores of our debt is technically classed as unproductive. This is a small total in comparison with the war debts of most other countries far less favourably situated than India in the matter of economic potentialities. But even this figure gives a somewhat unduly pessimistic presentation of the facts. The income expected to be derived by the Central Government in 1924-25 from its Railway and Irrigation systems is enough to pay the interest not only on the debt which is earmarked as productive Railway and Irrigation capital but also, within a few lakhs, on the unproductive debt as well.

Professor Vakil has done a real service in bringing together the facts relating to Indian finance in the last sixty years and in drawing attention to the importance of clear and accurate statistical presentation of the facts. It is a very healthy sign of the times that books such as Mr. Wattal's "System of Financial Administration in British India" and this new book by Professor Vakil on

"Financial developments in modern India" should appear in the same year. I hope that they will be studied by a large circle of readers, and that they will be the forerunners of other works designed to stimulate general interest in Indian finance and to spread more widely a knowledge of the complexities and the importance of the subject.

SIMLA,
September 1924.

BASIL P. BLACKETT.

PREFACE.

The works of Dr. Cunningham and Prof. Ashley and their successors have assured the position of Economic History as an important branch of study in England. "It has won the recognition of the learned world as a distinct department of erudite research; and it has secured the appreciation of the general public as a subject of sustaining interest." In our country the great value of the study of Economic History is neither fully recognised nor appreciated. The slow but sure economic movements which take place below the surface of affairs, are not easily perceived by the political historian in his zeal to create a dramatic interest in the rapid succession of events or the varying turns of fortune. At the same time, in the absorbing interest which centres round political problems at the present moment, their economic background is frequently forgotten. It is because of this very reason, namely, that the forces with which he is concerned are more gradual and less obvious in their operation, that the task of the Economic Historian in tracing the relations of causes and effects, and in studying the development of tendencies and policies, becomes more difficult.

It is, however, this task if successfully achieved that will provide object lessons for the future economic development of our country. The scientist depends for his results in the privacy of his laboratory on unfeeling instruments precisely suited to his purpose. The economist has to depend on the laboratory of past experience, where he may observe but cannot make experiments upon mankind.

Dutt's Economic History of British India, in two volumes, is the most important recognised effort in this direction. He covers the British period from 1757 to 1900. Since he wrote, however, many eventful years have passed, and the necessity of attempting a more comprehensive work is being felt. Besides, or the purposes of a systematic study, Dutt's History suffers from his chronological treatment, with the consequence that for the same subject the reader has to wade through several chapters scattered over both the volumes. More recently, the Economic History of the Mogul Period has been published in two volumes by Mr. Moreland. Several other excellent works on economic subjects have appeared in some of which importance has been given to the historical aspect of the problem in hand.

A comprehensive Economic History of India from the earliest times to the present day is a task which requires the co-operation of many devoted minds. To bring together the requisite intellectual force, to provide the workers with the necessary facilities, and to publish their results, the best method would be for the different Indian Universities to undertake the work jointly under their auspices.

Leaving this bigger task to the future, I have in view the preparation of an Economic History of Modern India, since the Mutiny. For our Political as well as Economic History, the Mutiny is an important landmark; the beginnings of most of the present economic forces in the country may be found somewhere about that time; and for this very reason, namely, a right solution of the many economic problems which are before the country at

present, the Economic History of this modern period has its obvious attraction and importance.

In order to study this period in an exhaustive manner, I think of dividing it into three main divisions—(1) Financial, (2) Industrial and Commercial, and (3) Agricultural. The object is to treat these subjects separately in one or more volumes as required, so that each volume though a part of the series, may also be a complete whole in itself. The present work dealing with Public Finance, is the first volume of the Financial Division, the second of which will obviously deal with Monetary Problems.

This volume is divided into four parts. The first part, called Introductory, deals in a general manner with the political and administrative aspects of Indian Finance in three chapters The fourth chapter is concerned with Indian Financial Statistics, and the fifth explains the position of Indian Finance in 1860, the year in which the Finance Department was systematically organised for the first time.

The second and third parts deal respectively with Heads of Expenditure and Sources of Revenue. A critical historical account of the principal heads of expenditure and revenue is given in these parts. The last part, entitled General Review, contains a survey of the whole position, and includes a discussion of the important problems of War Finance, Taxable Capacity, Incidence of Taxation, and the task before the Taxation Committee.

A proper idea of the Financial History of India cannot be obtained without the aid of Financial Statistics. The many difficulties involved in handling Indian Financial

Statistics for the purposes of a comparative study have been pointed out in chapter IV. Out of the confused mass of figures published by Government, tables have been specially compiled on the plan explained in the same chapter, and printed in the appendix, the length of which needs no apology. In the body of the book only brief references have been made to the figures wherever necessary, the details being all available in the appendix. Besides, in order to have the main tendencies in Indian Finance at a glance, the reader is referred to the graphs at the end of the volume.

In explaining the Financial Developments in Modern India, an adequate discussion of the main currents that have brought them about is essential. On account of the close connection between Finance on the one hand, and Politics and Administration on the other, the influence of the latter on the former cannot be avoided. This is all the more true in our country because of the absence of popular control of any kind on official policy till recently. Official policy and the considerations which led to it have therefore been examined. The one test by which that policy has been judged is whether the interests of India and of the Indian taxpayer have been the datermining factors in adopting it. This criticism has been obviously made against the system, and not against individual officers, some of whom have rendered able and meritorious services to the country.

I may mention here that I have incorporated into this volume, the research work in Indian Finance done by me under the guidance of Professor Cannan at the London

School of Economics during 1919-1921, as Bombay University Research Scholar in Economics. I need not specify in detail the many obligations which I owe to Professor Cannan; I may only add that it was both a pleasure and a privilege to have worked under him.

My sincere thanks are due to the Hon. Sir Basil Blackett for his kindness in writing the Foreword to this volume. With a book which is a survey of the work of his illustrious predecessors in the high office of Finance Member to the Government of India, I thought that it was in the fitness of things that he may be associated in this way. I have had opportunities of discussing the plan and some portion of the book with him, and I have greatly profited by his suggestions. I alone am, however, responsible for the views expressed in this volume, and they have no official confirmation whatsoever.

I am greatly obliged to the University of Bombay for granting a subsidy towards the publication of this book.

I must also acknowledge my debt to my friend Mr. R. C. Master, B.A., F.S.S., for his useful criticism and suggestions when the book was going through the press, and for considerable help in the preparation of the Index.

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October 1924.

C. N. VAKIL.

ADDITIONS AND CORRECTIONS.

Additions.

Note :—In this rapidly moving world, the author of a book on a subject like the finances of a country, runs the risk of being out of date very soon. Efforts have been made to introduce up to date information in the body of the book as far as possible, but it was not possible, to take account of the proceedings of the September session of the Central Legislature, and it is proposed, therefore, to refer here in brief to the more important decisions of the Legislature which have a financial bearing.

The recommendations of the *Lee Commission* embodied in a Government resolution were rejected by the Assembly, but accepted by the Council of State. The way in which these two chambers are moving in different directions on important questions can also be seen from the fact that whereas the Council of State passed a resolution in favour of the appointment of an additional member representing producers, that is, agriculturists, to the *Taxation Committee*, the Assembly passed a resolution for its dissolution, and for the appointment of a new non-official body to examine the numerous points connected with the present taxation resources of the country, the economic condition and the position of the people. A resolution was also passed by the Assembly recommending the abolition of the *Cotton Excise Duty.*

The decision of the Government on these resolutions has not yet been announced.

Separation of the Railway Budget :—A resolution for the separation of railway finance from general finance was passed. The object of the resolution was thus defined :—

"To relieve the general budget from the violent fluctuations caused by the incorporation therein of the railway estimates, and to enable the railways to carry out a continuous railway policy based on the necessity of making a definite return to general revenues on the money expended by the State on railways".

The contribution from railways to the general revenues which shall be a first charge on their net receipts is to be "a sum equal to one per cent. on the capital at charge of commercial lines, (excluding capital contributed by companies and Indian states) at the end of the penultimate financial year, plus one-fifth of any

surplus profits remaining after payment of this fixed return subject to the condition that if in any year Railway Revenues are insufficient to provide the percentage of one per cent. on the capital at charge, surplus profits in the next or subsequent years will not be deemed to have accrued for the purposes of division until such deficiency has been made good. The interest on the capital at charge of, and the loss in working strategic lines shall be borne by General Revenues, and shall consequently be deducted from the contribution so calculated in order to arrive at the net amount payable from Railway to General Revenues each year."

The surplus after making this payment is to be transferred to a Railway Reserve, the use of which has been defined in detail. A standing Finance Committee for Railways is to be constitued. The Railway Budget is to be presented to the Assembly in advance of the General Budget.

These arrangements are to last only so long as the principle of State Management of Railways is acted upon by the Government, failing which the Assembly may terminate the whole scheme.

A rapid Indianisation of Railway services, the appointment of Indians on the Railway Board, and the purchase of Railway stores through the Stores Purchase Department are also included in the resolution.

Debt Redemption:—In connection with a resolution asking for suitable legislation providing for an annual provision for the reduction or avoidance of debt, the Government made an announcement about their scheme on the subject which is to be published in the form of a resolution. The basis of the scheme is the existing amount of capital obligations as they stood on 31st March 1923. A sum of four crores from the revenue is to be set aside for the purpose. In respect of any new capital borrowings one-eightieth of the face value of the amount borrowed is to be added to the sum of four crores mentioned above. Any approved surplus is also to be devoted to this purpose. The scheme is provisional for five years only, after which the next step may be taken.

Corrections.

Note:—The absence of expert proof readers adds to the many difficulties of authors in our country. In spite of correcting proofs several times, it is possible that some printer's mistakes

may remain unnoticed, and the author has, therefore, to rely on the indulgence of the reader. It is proposed to refer here to those few mistakes which cannot be easily corrected by the reader himself. Opportunity is also taken to correct a few inaccuracies with came to notice after the book was printed.

Page 18 :—*Secretary of State in Council* :— *Delegation of Powers of Expenditure* :—Though the primary responsibility for the finances of India rests on the Secretary of State, it is impossible for him to sanction and control every item of expenditure. Under section 21 of the Act, rules have been framed by which large powers with regard to expenditure from central revenues upon subjects other than provincial have been delegated to the Governor-General in Council. Within the limits of these powers, the Governor-General in Council can re-delegate his powers to any subordinate authority. Rules have been framed for this purpose. (This point has not been properly emphasised in the text).

Page 57 :—*The Comptroller and Auditor-General* :—This officer is no longer in existence. The present position of the Auditor-General is explained on page 72.

Page 75 :—Audit reports on the India Office accounts *are* placed before the Public Accounts Committee.

Pages 76 and 84 :—In addition to the methods of providing funds to the Secretary of State mentioned in the text, it may be added that recently the practice of "*Purchase of sterling*" in India for the same purpose has been adopted on a large scale. The Secretary of State also puts himself in funds from the proceeds of loans floated in England,

Page 83 :—The facilities of "Supply bills" and "Telegraphic transfers" are not limited to the land revenue season only, but are given throughout the year.

Page 288 :—

Line 10 :—Instead of Third Period ... 164·8
read Third Period ... 160·0

Lines 12 and 13 :—read, "The average annual interest charges on the ordinary debt, *and the interest on other obligations*, after deducting these receipts are as under :—

Line 16 :—Instead of Third Period ... 0·48
read Third Period ... 1·1

Line 17 :—Instead of Fourth Period ... 2·9
read Fourth Period ... 4·2

Page 298 :—

Line 10 :—Instead of " two ", read " one ".

Omit " and 1913 ".

Line 23 :—Instead of 3·19 read 3·5.

Page 454 :—

Line 3 .—Omit " the reduction of the Excise duty on Motor spirit to $4\frac{1}{2}$ annas a gallon ".

Pages 584–589 :—

Tables, 26, 27 and 28 :—The figures are in crores of Rs.

Pages 593, 594 and 595 :—

Omit the word " (Crores) ".

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APPENDIX. STATISTICAL TABLES.

Pp. 543–610.

ABBREVIATIONS.

The following abbreviations have been used in the case of works which have been frequently referred to :—

F. S.—Financial Statement.

S. C.—Select Committee of the House of Commons.

W. C.—Welby Commission.

F. C.—Famine Commission.

B. P.—Baden Powell, Land Systems in India.

P. P.—Parliamentary Paper,

Dutt I—Economic History of India, Vol. 1.

Dutt II— „ „ „ Vol. 2.

Strachey—Finances and Public Works of India.

The Act—The Act of 1919.

H. L.—House of Lords.

M.—million.

Rx.—ten rupees.

Lakh is equal to hundred thousand.

Crore is equal to ten millions.

The figures are for financial years. For example, the year 1924 with reference to a figure or figures means 1924-25, that is, 1st April 1924 to 31st March 1925.

FINANCIAL DEVELOPMENTS
IN
MODERN INDIA,
(1860-1924).

PART I.—INTRODUCTORY.

CHAPTER I.

CONTROL OVER THE PUBLIC PUR

(1) *Popular or Legislative Cont.*

Among the many important aspects conditions of India, which are attracting at present, the problems connected wit have a deserved place. The revenue countries have had important effects c development. \The economic life of a n reflected in its fiscal system. It is on connection between Finance and the people that the management of the watched in all countries. The p situation is that in most indeper way in which the people try to c is by controlling the Finances of t between the economic aspects of and its administrative and politic

In most civilised countries attempts are made to establish a Financial System, which is believed by the people of those countries to be on the whole consistent with their welfare. Taxation is generally made to conform o the well-known canons of Equality, Certainty and bility to pay. Moreover, the fiscal policy is generally signed to encourage directly or indirectly, the industry commerce of the country. A careful watch is kept expenditure ; it is kept within bounds, so that the ibrium between revenue and expenditure may not sturbed ; the one test to judge whether the expendi- à State has been properly incurred is whether it he interest of the people of that State ; thè Execu- ernment is generally looked upon with a kind of n this matter ; and the Financial measures of the are subjected to the closest scrutiny by, and t to the sanction of popular representatives. ie mistakes of the Executive find a timely the searching criticism of a vigilant public

of popular control over the public purse ı India. A limited measure of such control he people's representatives since 1921, but at even under the Reforms, for the more ial measures, the Executive, though responsible, to the Legislature, which ıolly elected. A brief review of the s system has been evolved will help present position and enable us to ure.

ial organisation of India dates from an Budget in a modern form was ative Council, (18-2-1860), by the ıer, James Wilson. It may be statement is a masterly exposi-

tion of Indian Finance at that time on the English model. It has been compared to the financial statements of Gladstone before the House of Commons. But our admiration must cease when we remember that it was a imitation of the forms of the English system witho' the spirit. In England, all decisions on such questio are arrived at after a full discussion by all the clas affected, and it is with their general knowledge consent that those decisions are carried into effect. Legislative Council of India was a mockery of repre' tive institutions in those days. The millions of ' taxpayers had not the slightest idea of what was pr for them until the tax-collector made his demanc anomalous situation did not escape criticism at t Sir Charles Trevelyan, the Governor of Madras, "Comprehensive finance, which deals boldly existing interests, and readjusts taxation tc circumstances of the time, is the growth of our tary system; and great danger is to be appre its sudden introduction into India, without th safeguards which belong to the original insti Charles, however, did not dream that this s its evils which he clearly perceived and c out, was to continue without material generations, during which long period it ' its own traditions, the influence of w till to-day.

The system inaugurated by Mr. presenting the annual Budget to the continued uninterrupted till 1872. A there was usually a lengthy speech c explaining the financial and econc Technically, no discussion on th

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1. P.P. 296 c

Under the law of 1861, the Council could not meet for other than legislative business. It happened however that during each of the years 1860 to 1872 some new financial legislation, (e. g. a new taxation bill) was necessary in connection with the Budget. The Council met to consider nd pass the new measures ; the Finance Member took e opportunity of presenting his Financial Statement ; discussing the merits of the new legislation, the nbers of the Council got an opportunity of discussing Budget as well.

uring the years 1873 to 1876, no such financial bills lled for with the consequence that the Budget was sented to the Council. During these years, the Statement took the form of a formal minute in the Gazette of India.

ecessity for fresh financial legislation having 1877, Sir John Strachey adopted the old xplaining his Budget proposals to the Council. ontinued on account of the same causes till years after this, that is, from 1883 to 1888, ain the publication of formal minutes giving e first two Budgets of Sir David Barbour, 1890 were presented to the Council, the 1891 and 1892) having again taken the

e in this unsatisfactory method of deal- proposals of the country came with Act of 1892. Before 1892, as we have sion at all was permissible whether t was presented to the Council or presented because of the necessity tive act, members took advantage

of the occasion to discuss the general financial measures also. Under the act of 1892, it was provided that the Budget must be explained in the Legislative Council and might be discussed by the Members, who were now at liberty to offer any observations they might wish on the Financial Statement. Members had no right, however, to put any motion or divide the Council. On a perusal of the Council proceedings on the Financial Statements since 1893, we find that these discussions became in time lengthy and comprehensive. Non-official members ranged over the whole field of Indian Administration and official members were called upon to defend the acts and policy of their Departments. There was no other recognised occasion during the legislative session, either for the former to criticise or for the latter to expound.

In order to facilitate the discussion of the Budget and for the sake of clearness, an important change in the form of the Statement was made by Sir David Barbour in 1890. It was divided into two parts. The first part dealt mainly with a discussion of policy. The second part contained an examination in details of financial results, figures, etc. The operation of the Act of 1892 revealed the necessity of making this division of the Statement into two parts, more systematic. This was done in 1900, from which date, the second part bore the signature of the Financial Secretary and the first, that of the Finance Member.

Under the Indian Councils Act of 1909 certain items of revenue and expenditure were specified which were open to the Legislative Council for discussion and others

which were not.[1] The right to move resolutions and divide the Council on these questions which were thus

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1. The following were the heads of revenue and expenditure open for discussion by the Ooucil and those which were not :—

REVENUE.		EXPENDITURE.	
Heads open for discussion.	Heads not open for discussion.	Heads open for discussion.	Heads not open for discussion.
Land Revenue.	Stamps.	Refunds and drawbacks.	Assignments and Compensations.
Opium.	Customs.	Land Revenue.	Interest on Debt.
Salt.	Assessed Taxes.	Opium.	Ecclesiastical.
Excise.	Tributes from Native States.	Salt.	Political.
Provincial Rates.	Court Fees.	Stamps.	Territorial and Political Pensions.
Forest.	Army.	Excise.	Interest, annuities. etc. on State Railways.
Registration.	Marine.	Provincial Rates.	Army.
Post Office	Military Works.	Customs.	Marine.
Telegraphs.	Provincial Revenues.	Assessed Taxes.	Military Works.
Mint.		Forest.	Special Defence.
Jails.		Registration.	Statutory charges.
Police.		Interest on other obligations.	Provincial expenditure.
Education.		Post Office.	
Medical.		Telegraphs.	
Scientific and other departments.		Mint.	
Receipts in aid of Superannuation etc.		General Administration.	
Stationery and Printing.		Courts of Law.	
Exchange.		Jails.	
Miscellaneous.		Police.	
State Railways.		Education.	
Subsidised Companies.		Medical.	
Irrigation—Major Works.		Scientific and other minor departments.	
Irrigation—Minor Works.		Civil furlough and absentee allowances	
Navigation.		Superannuation charges.	
Civil Works.		Stationery and Printing.	
		Exchange.	
		Famine Relief.	
		Protective Works.	
		Reduction of Debt.	
		Irrigation Works.	
		Civil Works.	
		Capital expenditure on State Railways and Irrigation Works.	

within its cognisance, was given. The form which the Financial Statement took henceforward and the stages through which it passed may be briefly summarised as under :—

The form :—Part I of the Financial Statement now contained in addition to the speech of the Finance Member, the statistical statements containing (1) the closed accounts of the previous year; (2) the latest revised estimates of the current year which was coming to a close; and (3) the preliminary forecast for the coming year.

Part II contained the explanatory memorandum on each head of revenue and expenditure in greater detail than before. The movements of figures under each head were explained, as also the ways and means operations.

The Stages :—I. The Budget was introduced usually on 1st March or a little earlier, when no discussion took place.

II. This stage corresponded to the Committee stage of the Estimates in the House of Commons, in which fresh proposals were to be considered.

III. The whole Council went into a Committee. Each "major head" in the accounts, which *was open to discussion* was explained in turn by an Official Member who had special knowledge of the branch of the administration concerned.

At both these stages, it was open to members by way of resolution after due notice, to call attention to any matter which was directly relevant to the figures under consideration, to criticise the necessity for any entry, or to ask for further information. All such resolutions could be debated and the Council divided on them.

IV. By this time it was usually the end of March. The Budget was then presented in its final form, including

a speech by the Finance Member. It embodied all corrections that might have resulted from the detailed discussions or the passing of resolutions or any other changes due to the lapse of time. No further debate was allowed on this occasion.

V. At an adjourned meeting of the Council, members were at liberty to make general observations on the Budget without moving resolutions or asking the Council to divide. The old practice of general criticism of the nature of an academic discussion was thus retained. After the reply of the Finance Member, the president (the Viceroy) closed the discussion after a final speech.

In course of time, it was found that this last stage was lifeless and of no practical value, as the Budget was not affected by it. A change in the procedure made in 1918 removed this defect. The formal discussion took place after the presenting of the Budget in early March, and the other stages followed in turn. This system continued till 1920.

The Conclusions from the above are that :—

(1) Before 1893, the people were not even consulted in the financial arrangements of the country.

(2) Since 1893 and particularly since 1910, with the enlarged Councils, the elected representatives of the people could express their opinions on the financial measures of the Government.

(3) Their voice was however not effective, for upto 1920 the Legislature had an official majority, and no measure could pass which was not acceptable to the Executive. The system merely gave an opportunity to the elected members to express their opinions, which it was to the discretion of the Executive to accept or reject.

We have been speaking so far of the Central Government. The remarks made above however are generally true of the Provincial Governments as well. The Provincial Legislative Councils were as powerless to control the Provincial Budgets, as the Imperial was to control the Central Budget. Besides, the resources of British India constituted one whole fund out of which the Provincial Governments received certain doles, more or less at the discretion of the Central Government. The annual accounts of the Government of India showed the financial position of British India as a whole, the Provincial and Imperial shares of revenue and expenditure being separately shown. This system which necessarily involved control and interference on the part of the Central Government in the affairs of the Provincial Governments was incompatible with the grant of financial autonomy to the Provinces under the Reforms. This has necessitated a complete division of the sources of revenue between the Provincial and Central Governments for expenditure on the functions assigned to them. It is necessary, therefore, to consider the amount and nature of popular control over the purse under the Reforms in the Provinces and in the Central Government separately.

Power of the Purse in the Central Government.

The Central Legislature is divided into two Chambers (1) the Legislative Assembly and (2) the Council of State. The former has an elected majority, in the latter the elected members are in a minority.

In introducing the first Budget (1921-22) under the Reforms, the Finance Member, the Hon. Mr. (now Sir Malcolm) Hailey explained the constitutional change affecting the Central Budget in these words:—

"I stand before the House in a different attitude, almost a different capacity, from that of any of my predecessors. They

have had their lean years and their fat years; at times they have come before the public, smiling and comfortable men, with their tale of swelling revenues and an assured surplus; at times they have had to confess ruefully to coffers depleted by disasters due, as the law would say, either to the hand of God or to the malice of the King's enemies, the effects of which my prosaic department expresses in deficits and fresh taxation. But their circumstances were different. They addressed an audience which had the power of criticism, and nothing more. Their budget proposals were laid before the Council for information and discussion; they did not require the specific approval of the Council, and the most unqualified expression of disapproval did not necessarily entail their modification. Very different is my case to-day. Every one will, I think, agree that it is the section of the Government of India Act in relation to the budget which constitutes, as far as this Assembly is concerned, the substance of the advance in the transfer of power to the representatives of the people. Save for the items of expenditure mentioned in Section 67 A (3) of the Act, all proposals for expenditure are subject to the vote of the House; and this is qualified only by the power of the Governor-General in Council to restore any provision if he can certify that such provision is essential to the discharge of his responsibilities. But the change goes far beyond this. What I have just said relates to the power of the House to give or withhold its assent to proposed expenditure when this can be met from the estimated revenues of the year. If those revenues are insufficient, and it becomes necessary to supplement them by finding additional sources of revenue in new taxation, then the power of the Indian legislature, with its non-official majority in both Houses, assumes an even more decisive character. These are the new circumstances to which I have referred; and it is to an Assembly so constituted that a Finance Member has for the first time to justify his stewardship. I might fairly be excused if I envied my predecessors their more spacious days. But I have no such feeling. This House may, no doubt will, criticize the wisdom of measures that have been undertaken by us in the past, when the sole responsibility was ours. But for the future they will have to share that responsibility. If we incur expenditure, it will be under their mandate. If we impose taxation, it will be by their vote. If the burden pressing on any class of the community has to be

lightened; if large concessions have to be given to any class of Government employees; if large schemes of development on any project of social or moral improvement have to be financed, the House will have to share with us the responsibility to the general taxpayer. Through its Public Accounts Committee the Assembly will have a powerful weapon for criticising the manner in which grants voted by it have been disposed of or for exploring the possibility of economy in standing expenditure. Speaking here to-day I frankly, and with no feeling of regret at the curtailment of our former powers, welcome the measure which has given us so powerful a partner in the trusteeship for the finances of India."

The alluring sentences in the above passage.—"If we incur expenditure, it will be under their mandate. If we impose taxation, it will be by their vote."—are not correct. More than half the Central expenditure is not votable by the Assembly, and fresh taxation has been imposed in spite of an adverse vote of the Assembly. The items of expenditure which are not subject to the vote of the Assembly are given in the footnote.[1] The most important of them is the

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1. Section 67 A (3):—The proposals of the Governor-General in Council for the appropriation of revenue or moneys relating to the following heads of expenditure shall not be submitted to the vote of the Legislative Assembly, nor shall they be open to discussion by either chamber at the time when the annual statement is under consideration, unless the Governor-General otherwise directs:—

(i) interest and sinking fund charges on loans; and

(ii) expenditure of which the amount is prescribed by or under any law; and

(iii) salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in Council; and

(iv) salaries of chief commissioners and judicial commissioners; and

(v) expenditure classified by the order of the Governor-General in Council as—

(a) ecclesiastical;

(b) political;

(c) defence.

expenditure on defence. In connection with the remaining portion of the Central expenditure, which is votable, the Governor-General in Council has not been slow to use his extraordinary powers. For example, the Assembly rejected the grant for the Royal Commission on Public Services, but it was restored by the use of this special power.

The anomalous character of the new arrangement becomes clear when we remember that though in the matter of large items of expenditure the vote of the Assembly is not taken, it is ordinarily required to consent to the imposition of taxation by passing the Finance Bill. The finance Bill, like other bills, has to be passed by both Houses. The two Houses are, however, so constituted that their decision is likely to be different on important controversial questions, particularly when the vote of the Assembly is adverse to the Government. This is possible because the elected members in the Council of State are in a decided minority. It is true that there is a non-official majority in the Council of State, but all the non-officials are not elected.

Illustrations of the limited power of the Assembly in these matters are not far to seek. In 1923, the doubling of the Salt Tax was rejected by the Assembly, but was accepted by the Council. The Governor-General over-ruled the authority of the Assembly by certifying the inclusion of the clause relating to the Salt Tax. In 1924, the Assembly refused leave to introduce the Finance Bill on the ground that it was not proper for it to agree to the imposition of taxation on the people, when it had little voice in spending the proceeds of that taxation. The Council of State did not join hands with the Assembly in this larger constitutional issue; the Bill was passed by it and certified by the Viceroy.

Power of the Purse in the Provinces.

This is regulated by Section 72 D of the Act the relevant clauses of which read as under :—

"(2) The estimated annual expenditure and revenue of the province shall be laid in the form of a statement before the council in each year, and the proposals of the government for the appropriation of provincial revenues and other moneys in any year shall be submitted to the vote of the council in the form of demands for grants. The council may assent, or refuse its assent, to a demand or may reduce the amount therein referred to either by a reduction of the whole grant or by the omission or reduction of any of the items of expenditure of which the grant is composed :—

Provided that—

(*a*) the local government shall have power, in relation to any such demand, to act as if it had been assented to, notwithstanding the witholding of such assent or the reduction of the amount therein referred to, if the demand refers to a reserved subject, and the governor certifies that the expenditure provided for by the demand is essential to the discharge of his responsibility for the subject; and

(*b*) the governor shall have power in cases of emergency to authorise such expenditure as may be in his opinion necessary for the safety or tranquility of the province, or for the carrying on of any department; and

(*c*) no proposal for the appropriation of any such revenues or other moneys for any purpose shall be made except on the recommendation of the governor, communicated to the council.

"(3) Nothing in the foregoing section shall require proposals to be submitted to the council relating to the following heads of expenditure :—

(i) contributions payable by the local government to the Governor-General in Council; and

(ii) interest and sinking fund charges on loans; and

(iii) expenditure of which the amount is prescribed by or under any law; and

(iv) salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of of State in Council ; and

(v) salaries of judges of the High Court of the province and of the Advocate-General.

"If any question arises whether any proposed appropriation of moneys does or does not relate to the above heads of expenditure, the decision of the governor shall be final."

The heads of expenditure on which the Provincial Legislative Council is not allowed to vote constitute a *small* part of the total expenditure, which means that a greator portion of the Budget is subject to the vote of the Council. So far as "transferred subjects" are concerned, the vote of the Council is more effective; in the case of "reserved subjects" the Provincial Government is armed with special powers to restore rejected or reduced grants[1]. The burden of suggesting or carrying fresh taxation proposals through the Council is supposed to rest on the Ministers, who are supposed to have the majority of the Councial with them[2]. The Provincial Governor has the power (Section 72 E) to certify the passsge of a bill in case the Council rejects it, but there has not yet arisen a case in which such power was exercised with respect to a taxtion bill.

From this brief review of the constitutional position regarding the Budget under the Reforms, *we conclude that*:—

(1) Full and effective control over the public purse is not enjoyed either by the Central or the Provincial Legislature.

1. This has been exercised, for example, Bengal Police grant.

2. Cf. Montagu-Chelmsford Report, paragraph 257, and report of the Joint Select Committee, remarks on clause 11.

(2) The Budget is subject to the vote of the Assembly in the Central Government and that of the Council in the Provincial Government, but the non-votable items in the case of the former constitute more than half the Central expenditure; the proportion of such items in the case of the latter is much smaller. Within this limited scope, these bodies with their elected majorities are more effective than their predecessors, though they can be overruled by the Governor-General or the Governor as the case may be.

(3) In the case of fresh taxation, it is possible for the Central Government with the help of the Council of State (where the elected members are in a minority) and the extraordinary powers vested in the Governor-General to disregard the wishes of the Assembly. In the Provinces, in practice, the onus of fresh taxation lies on the Ministers who are supposed to carry the majority of the Council with them. It is possible however that this power of the Council may become more apparent than real, if the majority of the elected members, become a minority in the whole Council, with its official and nominated members.

(2) *Executive Control—(a) in the Provincial Government.*

When before the Reforms the Legislature had practically no power over the Budget, the entire control was necessarily vested in the Executive. The limited amount of control given to the Provincial Legislature under the Reforms in connection with the Public Purse has been explained in the preceding section. To this extent, the Executive has been made responsible to the Legislature. In other words so far as transferred subjects are concerned, the will of the Legislature is supposed to prevail. This is however subject to the provision that even in the case of transferred subjects, it is necessary for a Provincial Government to obtain the sanction of the Governor-General-in-Council or the Secretary of State in the matter

of the creation or abolition of appointments with certain specified high salaries.[1]

The control of the Executive in a province in other financial matters may be briefly described as follows :—

(1) Though in questions of fresh taxation or loans, a joint consultation of Ministers and Executive members is required, the final decision rests with that part of the Executive from which the proposal originates. (2) In the matter of allocation of revenues, in case of disagreement between the Ministers and Executive Councillors, the Governor is empowered to make the allocation between reserved and transferred subjects. This allocation is to last for the duration of the existing Legislature and may last a year thereafter, unless in the interval the two parts of the Government come to a compromise. Fresh taxation imposed during such a period will be allocated to that part of the Government which initiates the same. In the absence of such allocation the budget of the previous year will form the basis of the arrangement for the next year.

(2) *Executive Control—(b) in the Government of India.*

Before the reforms, the finances of British India as a whole were presented in one account. As a matter of administrative practice certain arrangements were made from time to time, by which the provincial governments got certain limited powers over specified heads of revenue and expenditure. The nature of the system in vogue necessarily involved a close control over provincial finance by the Government of India. These financial relations between the Provincial and Central Governments before the Reforms formed an important feature in the history of Indian Finance till 1920. This subject has therefore been separately dealt with at some length in the next Chapter.

1. Cf. Schedule III to Devolution Rules, made under the Act of 1919.

One of the main ideas underlying the Reform Scheme, is to give financial autonomy to the provinces. Provincial finance is now entirely separated from the central budget and has been made subject to popular control to a certain degree as explained above. In spite of this the control of the Government of India not only in reserved but also, under certain conditions, in transferred subjects, has been retained with a view to enable them to safeguard the interest of central subjects, and to discharge their responsibility for the general administration of India.

Whereas a part of the Provincial Executive is responsible to the Provincial Legislature, the Central Executive as a whole is independent of the Central Legislature. This constitutional position gives the Central Executive a greater amount of control over its finances than the Provincial Governments have over theirs. We have for example, the formal passing of the budget in the Assembly, but more than half of the central expenditure is not votable. In the case of votable items also, the power of restoring rejected grants enables the Executive to overrule the Assembly. In the case of taxation bills, the consent of the legislature is ordinarily required, but here also it is permissible for the Governor-General to certify such a bill and enforce it even if rejected by the Assembly

Comparing the present position with that before the Reforms, it may be said, that the financial arrangements of the country were entirely in the hands of the Executive before 1920; under the Reforms, if the Legislature is not persuaded to accept the proposal of the Executive, it is possible for the latter to have their way in cases which they believe to be of sufficient importance for the exercise of their extraordinary powers.

(3) *Parliamentary Control—(a) in theory.*

The constitutional authorities in India, the Central and Provincial Governments as well as their legislatures derive their power from the British Government. The Indian

Executive is not fully responsible to the elected representatives of the people. In the absence of this necessary check on the Executive, we have the control of the British Parliament on the Indian authorities.

In financial matters the British Parliament exercises its control in the following manner. Section 20 of the Government of India (consolidated) Act, 1919, provides that "the revenues of India shall be received for and in the name of His Majesty, and shall, subject to the provinsions of this Act, be applied for the purposes of the Government of India alone." It is further provided by Section 26 that the Indian Accounts shall be presented to Parliament every year, accompanied by a statement "in such form as best exhibits the moral and material progress and condition of India."

The consent of Parliament is further necessary (Section 22) in the application of Indian revenues to military operations beyond the frontier, except for defensive purposes.

(3) Parliamentary Control:—(b) In practice, through the Secretary of State.

In practice, the control of the British Parliament over Indian finance is very nominal. The real control on behalf of Parliament is exercised by the Secretary of State in Council. Before the Reforms, the salary of the Secretary of State was a charge on the Indian treasury and as such was included in the Indian Accounts and Estimates. The British Parliament takes an opportunity to review, criticise and if necessary to control the actions of English Cabinet Ministers at the time of voting their salaries on the British Estimates. The Secretary of State for India, though a British minister, was absolved from this control. Though individuals holding this office may change with the English Cabinet as a whole, the impersonal Secretary of State remained free from any real control. He was of course the

constitutional head of the Indian authorities and as such became in practice the apex of the Indian bureaucracy.

Under the Reforms this position has changed in two directions. The salary of the Secretary of State is now a charge on the British Estimates and as such has to be voted by Parliament. An opportunity is thus provided for a discussion on his work. But in practice, this criticism cannot be effective. The essence of Party Government in England assures the Secretary of State of his position so long as the party to which he belongs is in power. The actions of the Secretary of State, however vital to India, do not assume sufficient importance in the eyes of the English Cabinet or the Parliament as to become a question of party politics on which the existence of a Cabinet may be decided.

The other direction in which the position of the Secretary of State has changed is in the relaxation of his control in those matters which are under the Reforms subject to the full control of the Indian Legislatures. The control of the Secretary of State in transferred subjects has been referred to above.

Besides this, Section 19A of the Act allows the Secretary of State to relax his control over Indian affairs by means of conventions. So far as financial questions are concerned we have already a convention on questions of fiscal policy to the effect that whenever the Government of India and the Indian Legislature are in agreement, the Secretary of State should not interfere.

The Indian Budget in Parliament.—As provided by statute the Secretary of State presents the Indian Accounts and Estimates to Parliament every year. As is well known however, this has become quite a formal affair and excites so little interest that the Secretary of State has only a small audience to listen to him. The appointment of the Joint Select Committee of both Houses of Parliament to advise the Secretary of State on Indian affairs is not likely to improve the situation.

Expenditure beyond the Frontier.—The provision by which the sanction of Parliament is necessary in the matter of military expenditure out of Indian revenues on wars beyond the Indian frontier has become a dead letter in practice. A detailed discussion of the various occasions on which the Parliament could have saved Indian money has been given in the chapter on Defence, from which it will be seen that this sanction has been a foregone conclusion, as a rule.

Power of Certification.—We have already seen that in case of failure to pass a certain legislative bill, the Governor-General in the Central Government or the Governor in the Provincial Government has the power to certify "that the passage of the bill is essential for the safety, tranquility or interests of British India," and thereupon under certain conditions the Bill can come into force. One of the conditions is that such an Act is not to come into force unless it has received His Majesty's assent, which is not to be obtained unless opportunity has been given to the Parliament to discuss it. This condition can however be waived if a state of emergency is declared at the discretion of the Governor-General. So far, as financial questions are concerned, the first occasion on which the operation of these clauses was called for, was in the matter of the certification of the Salt Tax by the Governor-General in 1923. The condition of approaching Parliament referred to above was however waived as in the opinion of the Governor-General a state of emergency existed.

Secretary of State and his Council.—We have seen that before the Reforms the powers of the Secretary of State were those of an irresponsible autocrat, and that under the Reforms there is a limited relaxation of these powers. The Secretary of State is assisted in his work by a Council of 8 to 12 members. Before the Reforms it could consist of 15 members. This is an advisory body.

Under Section 21, a concurrence of a majority of votes of tho Council is necessary in questions of expenditure out of Indian revenues.

In practice, the influence of the Council in controlling Indian expenditure as in other matters has been small. It is because of this reason mainly that proposals have been made from time to time to abolish this Council. The remarks made by Strachey several years ago are true till to-day :—

"The powers thus given to the Oouncil in controlling expenditure are, however, far from being great as at first sight they seem to be, for they can only be exercised in regard to ordinary business of the administration. Orders involving large expenditure may be given by the Secretary of State without either the consent or the knowledge of the Council. In dealing with questions affecting the relations of the Government with Foreign Powers, making war and peace, prescribing the policy to be followed towards Native States, and generally in matters in which secrecy is necessary, the Secretary of State acts on his own authority."

Expenditure in England.—In matters connected with expenditure in England on behalf of India the Secretary of State was the final authority till recently. With the creation of the office of the High Commissioner the agency work of the India Office has been or is being transferred to that officer who is responsible to the Government of India. As we shall see later this has increased the expenditure in England.

In questions relating to financial relations between the Indian and the English treasuries, it is the Secretary of State who is the spokesman on India's behalf. We shall have occasion to point out in the chapters on expenditure, how in various different cases which arose in the past the Secretary of State was not able to safeguard the financial interests of India.

In the above brief sketch we have surveyed only the broad features of the control vested in the Secretary of

State by law, practice or convention. It is neither possible nor necessary for our purposes to discuss the way in which on various occasions this control is exercised even in details. In addition to his powers referred to above, Section 2 (2) of the Act, which describes his functions, gives him sufficient opportunities to enter into details.[1] Various rules are made or instructions given from time to time for this purpose, which from the nature of the case are not always agreeable to the Government of India or to the people of India and do not always conduce to economy.

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1. Section 2 (2) of the Act :—In particular, the Secretary of State may, subject to the provisions of this Act, "or rules made thereunder," superintend, direct and control all acts, operations and concerns which relate to the government or revenues of India, and all grants of salaries, gratuities and allowances, and all other payments and charges, out of or on the revenues of India.

CHAPTER II.

FINANCIAL RELATIONS BETWEEN THE CENTRAL AND PROVINCIAL GOVERNMENTS.

Financial Centralisation.

After the Mutiny, when a regular financial administration was for the first time established, the Government of India found themselves faced on the one hand by a heavy deficit, and on the other by pressing demands for funds to meet the growing wants of the country. A strict financial control over all parts of the empire, centred in the Supreme Government was the result. Provincial Governments, which practically carried on the whole administration of the country had neither power nor responsibility, so far as the finances were concerned. The smallest details of expenditure, the employment of a person with the lowest salary, the grant of funds for a purely local work, however insignificant, required the sanction of the Imperial Government, which distributed the funds necessary for the public service throughout India.

Such a system in such a vast country was manifestly absurd. In course of time, the evils became apparent, and the conviction grew that a fundamental change was necessary. As early as 1860, Mr. Dickens (Secretary, P. W. D. Government of India) pointed out how this control was "regarded with feelings of aversion by the local governors, whose powers it curtails, and with whose acts it interferes." Mr. Laing (Finance Member) prepared a scheme for this purpose in 1861, the primary motive of which was the relief of the Imperial finances. The following year having proved better, this scheme was dropped. In his Financial Statement for 1862, Mr. Laing said "It is most desirable to break through the system of barren uniformity and pedantic centralisation, which has tended in times past to reduce all India to dependence on the bureaus of Calcutta.

and to give the Local Governments the power and responsibility of managing their own local affairs."

The causes which led to these evils have never been better described than by Sir John Strachey in the following words:—

"For many years the ordinary financial condition of India had been one of chronic deficit; and one of the main causes of this state of affairs was the impossibility of resisting the constantly increasing demands of the Local Governments for the means of providing every kind of improvement in the administration of their respective provinces. Their demands were practically unlimited, because there was almost no limit to their legitimate wants and the Local Governments had no means of knowing the measure by which their annual demands upon the Government of India ought to be regulated. They had a purse to draw upon of unlimited, because unknown, depth; they saw, on every side, the necessity for improvements; their constant and justifiable desire was to obtain for their own provinces and people as large a share as they could persuade the Government of India to give them out of the general revenues of the empire; they found by experience that the less economy they practised, and the more importunate their demands, the more likely they were to persuade the Government of India of the urgency of their requirements. In representing and pressing those requirements, they felt that they did what was right, and they left to the Government of India, which had taken the task upon itself, the responsibility of refusing to provide the necessary means.

"The Government of India had totally failed to check the constant demands for increased expenditure; there was plainly only one remedy to prevent the demands being made and this could only be done by imposing on the Local Governments a real and effectual responsibility for maintaining equilibrium in their local finances. There could be no standard of economy until apparent requirements were made absolutely dependent upon known available means. It was at that time impossible for either the Supreme or Local Governments to say what portion of the provincial revenues was properly applicable to local wants; for the revenues of the whole of India went into a common fund, and to determine how much of this fund ought fairly to be given to one province, or for one

object, and how much to others, was impracticable. 'The distribution of the public income,' General Strachey wrote, 'degenerates into something like a scramble, in which the most violent has the advantage, with very little attention to reason; as local economy leads to no local advantage, the stimulus to avoid waste is reduced to a minimum; so, as no local growth of the income leads to an increase of the local means of improvement, the interest in developing the public revenues is also brought down to the lowest level.'

"The unsatisfactory condition of the financial relations between the Supreme and Local Governments led to other evils. Constant differences of opinion about petty details of expenditure. and constant interference of the Government of India in matters of trivial importance, brought with them, as a necessary consequence, frequent conflicts with the Local Governments, regarding questions of provincial administration, of which they were the best judges, and of which the Government of India could know little. The relations between the Supreme and Local Governments were thoroughly inharmonious, and every attempt to make financial control more stringent increased an antagonism the mischief of which was felt throughout the public service[1]."

Lord Mayo's Decentralisation Scheme of 1870.

Under the pressure of financial difficulties, the discussion of the subject was revived in 1866 by Mr. Massey, (Finance Member), whose proposals were developed by General Strachey in August 1867. Lord Lawrence's disapproval prevented the acceptance of the scheme for some time, till in 1870, Lord Mayo gave his earnest attention to the problem, when it was found necessary to improve the financial position by at least a million £., and by two millions if the Income Tax was to be reduced or

1. This description was first written by Sir John Strachey in his minute of April 1872 on Lord Mayo's administration. It was subsequently quoted by the author himself on three occasions, (1) in his paper entitled "Observations on some questions of Indian Finance," presented to Parliament in 1874, (P.P. 326), (2) in his Financial Statement for 1877 and (3) in his later work "Finances and Public Works of India," 1882.

abolished. This resulted in the famous resolution (No. 3334 of 14th December 1870) of Lord Mayo, by which the Government of India transferred to the Provincial Governments, the financial control of the following services:—Jails, Registration, Police, Education, Medical services (except medical establishments), Printing, Roads, Miscellaneous public improvements, and Civil Buildings.

To carry on these services, the Provincial Governments were to get an annual grant of £. 4,688,711 from the Imperial revenue. This was less by £. 330,801 than the assignments made for the same services in 1870. The departmental receipts in the case of the services transferred belonged to the Provincial Governments. Subject to general restrictions, the Provincial Governments got full power and responsibility so far as these services were concerned.

The greatest defect that was pointed out in this scheme was that it was meant to give relief to Imperial finances and that it was a mandate to the Provincial Governments to impose fresh taxation. The Imperial Government had appropriated every source of expanding revenue as its own, while throwing so many expanding heads of charge on the Provinces. From the nature of the case, the services transferred to the Provinces were such as would demand a constantly increasing expenditure with the growth of the community. If the fixed assignment did not suffice, the Provincial Governments could not apply to the Government of India for additional help, but were to find their own resources by local taxes.

Moreover, the way in which the assignments had been fixed was such as on the one hand to relieve the Government of India, and on the other to make it difficult for the Provincial Governments to make both ends meet without fresh resources. They were based on the actual expenditure of the year 1870, which, however, had been much curtailed from the high figure to which it had reached in the preceding

years.[1] Not only this, but from this reduced expenditure, a further sum of £330,801, was also deducted, and the Provinces were asked to make good the deficit. The consequence was that new local taxes were introduced in the Punjab, Bombay and Oudh. Similar taxes imposed in Bengal, Madras and the North-West Provinces, at this time, were, it was argued, under discussion long before and were imposed independently of the new scheme.[2]

As a set-off against these additional burdens on the people, it was pointed out that they were relieved from Imperial taxation to the extent of 1.5. m.£. by the reduction of Income Tax. But the Income Tax was never intended to be permanent ; it was found unworkable in practice and highly obnoxious to the people; and the resolution to reduce it in 1871 and to abolish it in 1872 was arrived at quite independently of the scheme of decentralisation.

The Revision of 1877.

The arrangements of 1871 were subject to revision, which took place in 1877. It was then realised that the measures of 1871 did not go far enough. Provincial responsibility had been extended in expenditure, but not in income. If the Provinces could introduce economy and better management in the services transferred to them in 1871, they could as well improve those sources of revenue which depended for their productiveness on good administration, if they were given a direct

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1. Expenditure on the services transferred in 1871 :—

£	
1868–6,017,000	
1869–6,040,000	
1870-5,405,000	This was the basis for the scheme.
1871–5,027,000	The scheme in operation.
1872–5,223,000	

2. S. C. 1873, Q. 862.

and personal interest in their efficient management.[1] If the Provincial Governments were convinced that any improvement, which they might make in the administration of the different branches of revenue, would give them, and not only to the Imperial Government, increased income, they would have the necessary inducement for good administration.

The "Contracts" made with the Provinces in 1877 were designed to carry out these ideas to some extent. Their general features were :—As regards expenditure, all the remaining services, except those which were directly administered by the Government of India, or in the management of which Provincial Governments could not exercise any influence, were transferred to the Provincial Governments. They were also made responsible for the construction of Productive Public Works to some extent.

As regards revenue, the system of giving fixed assignments as in 1871 was continued. But this was in addition to the receipts from Excise, Law and Justice (Courts), and a few other small items, which were made over to the Provincial Governments. In surrendering these receipts the Government of India, reserved to themselves the right to a share in the future increase in the revenue from these heads.

The Government of Madras did not accept this arrangement, and therefore the Contract of 1871 was continued with them. The Contracts with Assam and Burma were not made till 1879, and they involved a further extension of the system. Both were backward provinces, and they were not in a position to give any relief to the Imperial Government. Instead of a fixed allotment, Assam was given one-fifth of the Land Revenue of the Province. In the case of Burma, a one-sixth share of the revenue derived from Land, Forest, Export duty on rice, and Salt was given.

1. F.S. 1877, p. 129.

In other respects the Contracts were similar to those with the other Provinces.

The new principle in these two cases was that the excess of Provincial expenditure over Provincial receipts was made good not by a fixed assignment from the Imperial Government, but by the grant of a share in the reserved Imperial revenues.

The relief to the Imperial Government by the Contracts of 1877 was about £ 400,000.[1]

Two other measures were introduced at this time, which deserve notice. In 1871, the details of Provincial receipts and expenditure were excluded from the General Estimates and Accounts, and only one entry was made under the head " Allotments for Provincial Services." In 1877 this method was reversed, and from this year these details were introduced into the General Accounts and Estimates. The reason for this was that it was necessary to give their proper place to figures of interest and importance, to make the General Accounts and Estimates complete, and to represent properly the character of the arrangements between the Imperial and the Provincial Governments.[2]

The Government of India were the bankers of the Provincial Governments. The latter had nothing to do with the general "ways and means" policy of the Imperial Government. Their balances remained with the Imperial Government, and these balances increased or decreased as the Provinces had surpluses or deficits. In the General Accounts we find an adjusting entry "Provincial Surplus or Deficit" for this purpose. This situation led to a rule in 1878, that during the currency of a year, a Provincial Government could not without the permission of the

1. F. S. 1878.

2. F. S. 1877, pp. 98—99.

Government of India, sanction expenditure which would increase the total expenditure of the Province, above the amount provided in its budget, unless such expenditure was covered by additional receipts during the year.

In 1879, the Government of India found themselves in a deficit, on account of the Afghan War. The Famine Insurance Scheme which had been just inaugurated, was not put into execution. At the same time, the Provinces were called upon to contribute. The total contributions thus taken amounted to 67 lakhs of rupees.

The Contracts of 1882.

The Contracts of 1877 were made for five years, and were therefore revised in 1882. The general features of the arrangements of 1882 may be described in the words of of the Finance Member[1] :—"In the first place, all the new Provincial settlements have now been based upon the principle which was adopted in 1879 in respect to Burma. That principle is, that, instead of giving Local Governments, as heretofore, a fixed sum of money to make good any excess of provincialised expenditure over provincialised receipts, a certain proportion of the Imperial revenue of each province is for the future to be devoted to this object. Certain heads, as few in number as possible, are wholly, or with local exceptions only, reserved as Imperial. Others are divided in proportions, for the most part equal, between Imperial and Provincial. The rest are wholly, or with minute local exceptions only, made Provincial. The balance of revenues and charges thus made Provincial, being against the Local Governments, will be rectified for each Province by a fixed percentage on its Land Revenue, (otherwise reserved as Imperial), excepting in the case of Burma, where the percentage will be extended to the Imperial rice export

1. F. S. 1882 para 39.

duty and the Salt Revenue also. The advantage of this system over that which has hitherto generally prevailed is, that the Provincial Governments will be given a direct interest, not only in the Provincialised Revenue, but also in the most important item of Imperial Revenue, raised within their own Provinces".

The Madras Government which had refused to accept the Contract of 1877 was included in this arrangement.

The financial position was satisfactory in 1882, the year in which the General Customs Duties were abolished. The Provinces were therefore treated liberally. Firstly, the sum of 67 lakhs which was taken from them during the Afghan War was returned. Secondly, as in 1871 and 1877, the arrangements were not made in such a way as to relieve the Imperial Government at the cost of the Provincial Governments.

The relations of the Provincial and Imperial Governments in case of famine or war were defined in the Contracts of 1882. Under the arrangements then existing, in case of famine a Provincial Government could not get any assistance from the Imperial Government till the whole of its resources were exhausted. According to the new rule, though the Provincial Governments were not to expect any special aid, except in case of a severe famine, they were to be given help at an earlier stage than before within certain limits.[1] On the other hand the Government of India undertook to make no demand on the Provinces "except in the case of disaster so abnormal as to exhaust the Imperial reserves and resources, and to necessitate the suspension of the entire machinery of public improvement throughout the Empire".

From 1884, under orders from the Secretary of State, the Provincial Governments were required to keep certain

1. F. S. 1882, p. 10.

fixed minimum balances as a safeguard against famine or any unexpected emergency.[1]

In 1886, the Income Tax was introduced. But the increased expenditure due to the addition to the army at this time could not be met in spite of this new source of revenue. Contributions to the amount of 40 lakhs of rupees were therefore levied from some of the provinces.[2]

The Secretary of State had insisted before this that the Government of India should have complete discretion as to the time, when the Province might be called upon to contribute.[3] In commenting upon the action of the Government of India in 1886—the contributon of 40 lakhs from the Provinces—the Secretary of State again desired[4] that some means should be devised by which, in case of emergency, the provinces might be called upon to contribute a proportionate share towards meeting the necessity of the Empire, according to some well-established principle. It was realised that the contributions of 1886 did not fulfil the pledge of 1882 by which the Imperial Government was to ask for help only in case of a very abnormal disaster. The Finance Member admitted in 1887 that the method of taking contributions from the Provinces was not equitable, because those provinces which had accumulated balances were called upon to contribute, whereas others escaped.

1. They were :—

		£		£
	Madras ...	200,000	Punjab ...	100,000
(of F.S. 1884,	Bombay ...	,,	C.P. ...	80,000
p. 27.)	Bengal ...	,,	British Burma ...	60,000
	U. P.	,,	Assam ...	50,000

2. F.S. 1886, p. 14.

3. Despatch 16th February 1882, W.C II.

4. F.S. 1887, p. 20.

In the meanwhile the Finance Committee of 1886 had investigated the whole problem of Provincial Contracts and suggested several improvements.

The Contracts of 1887.

In the Contracts of 1887, the existing conditions by which the right of the Government of India to claim contributions from the Provinces was maintained, were not modified, but the revenues assigned to the Provinces were more clearly adjusted to their requirements; a fair share in the increase of revenue during the term of the Contract was given to the provinces, and the chances of their being called upon to contribute to the Imperial Government were lessened. Generally speaking, the Provincial Governments got three-fourths of the future increase in Stamp Revenue, and one-fourth of that from Excise and Land.

The gain to the Imperial Government as a result of these arrangements was £ 630,000.

In reviewing the Contracts of 1887, the Secretary of State pointed out what he believed to be a great defect in the existing system[1]. The financial difficulties of the Government of India were many—due to the Forward Policy, large expenditure on Public Works, increasing English Charges, Loss by Exchange, and Famine. The Government of India were therefore compelled to impose fresh and objectionable taxation, and even then were unable to place their finances in a satisfactory position, whereas at the same time, the Provincial Governments were free from any embarrassment (except famine). "The finances of India," wrote the Secretary of State, "must be dealt with as a whole; and it is not reasonable that the Provincial Governments should bear no share of the most difficult part of the financial responsibilities of the Empire"; and he urged that "Your Excellency should review the

1. **Despatch, 12th March 1888, W. C.—II, p. 141.**

financial relations between the Central and Provincial Governments, with the view of placing upon the latter a more complete obligation for bearing their due share of those Imperial liabilities from which, under the present system, they are exempt."

The burden of financial difficulties for which the Government of India or the Secretary of State had been responsible was thus to be shifted to some extent on the shoulders of the Provincial Governments. At the revision of the Contracts in 1887, the Government of India had taken a large share of the increased revenue managed by the Provincial Governments. They had recently imposed the Income Tax; had increased the Salt duty and levied a tax on imported petroleum. But in spite of this their self-created requirements could not be met and the Provincial Governments were to be deprived still more of funds, which they could have utilised for the welfare of the people committed to their care.

In accordance with the instructions of the Secretary of State, proposals were made in October 1888, which virtually had the effect of terminating the Contracts of 1887[1]. These proposals met with strong opposition from the Provincial Governments, and the consideration of the question was postponed. But it was decided as a temporary measure to take contributions from the Provinces to the extent of Rs. 740,000 in 1889.[2]

The Contracts of 1892.

The revision of the Contracts took place in 1892. The existing rules were consolidated and the same general

1. Cf. F. S. 1889, p. 17 and F. S. 1890, p. 106.

2. In the case of Burma and the North-West Provinces, the contribution was permanent. In the latter the Patwari cess had therefore to be re-imposed. The Lieutenant-Governor of Bengal said in the Council that his province had found it a "a matter of exceeding difficulty and inconvenience to make the contribution". Cf F. S. 1889, pp. 18 and 95.

principle of 1887 was observed. A few minor administrative changes were made. The gain to the Government of India by taking over a share of the increase in revenue during the preceding five years was Rs. 466,000. Referring to this, Sir David Barbour said[1] in his Financial Statement that it would have been desirable to allow the Provincial Governments to spend the whole of the increased revenue on measures of public utility, but that it was not possible for the Imperial Government to forego this sum without imposing fresh taxation.

Soon after this in 1894, the Government of India had recourse to Provincial Contributions. They were faced with a deficit of 2·9 m. Rx. To meet this, they imposed the General Import Duties, suspended the Famine Grant and took contributions from the Provinces to the extent of Rx. 405,000. The effect on the Provinces of this measure and the general situation may be best explained in the words of the Government of India—" The imperious necessity for imposing new taxation obliges the Government of India first to exhaust all available methods of increasing their resources; and this necessity is the only justification they can put forward for so soon making a practical revision of ' Contracts ' made only two years ago, and calling in balances which the Local Governments might legitimately claim as pledged to them for the purpose of administrative improvement."[2]

In presenting the estimates of 1896, the Finance Member showed that the finances of 1895 had turned out satisfactory, and that the position in the coming year was hopeful. The causes of this improvement were

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1. F. S. 1892, p. 37.

2. Cf. Letter to Provincial Governments in connection with these contributions, W. C. II. It may be pointed out that a part of the new expenditure due to the Exchange Compensation Allowance had fallen on the Provinces.

a rise in the rate of Exchange and an increase under "Opium". The Finance Member was not aware at the time that a great famine was to overtake him in a short time. It was therefore resolved to return the contributions taken from the Provinces in 1894—Rx. 405,000. It was pointed out that the financial situation had grown worse in the meanwhile.[1]

The Contracts of 1897.

The revision of the Contracts again became due in 1897. The same general principles were adopted. The backward provinces[2] were dealt with liberally. The Government of India did not take away any increase in the revenues assigned to them. On the other hand their share in the Land Revenue was increased to some extent, and their fixed assignments were reduced, giving them on the whole greater resources than before. The case of the North-West Provinces was specially dealt with in a liberal way. In the case of the more advanced Provinces—Bombay, Bengal and Madras—the Government of India took some share of the increased revenue.

These arrangements were provisional and incomplete. They were made at a time of famine, and were subject to change when the famine was over.[3] The Imperial Government did not make a gain on the whole by the revision of the Contracts in 1897.

We have seen above that it was a condition of the Contracts that in times of famine, the Imperial Government would come to the help of the Provincial Governments, within certain limits. The famine which began in the end of 1896 lasted for a long time and had its effects on the finances of 1898. The resources of the Provincial as well as the Imperial Governments were put to a severe test.

1. F. S. 1896, pp. 8–9.
2. C. P., Assam, Burma, and the Punjab.
3. F. S. 1897, pp. 14–21.

Apart from direct expenditure by the Government of India on account of famine, they gave Rs. 1,213,200 to the Provinces in the three years 1896 to 1898, to help them to meet the emergency.[1] At the end of the financial year 1898, the Government of India found themselves in a prosperous condition, whereas the Provinces were in great difficulty. It was therefore resolved to give special grants to the Provinces to the extent of Rs. 700,000 to enable them to meet their ordinary administrative necessities.[2]

The position up to the end of the last century.

The following figures summarise the results of the contributions from Provincial Governments to the Imperial Government and vice versa :—

Provincial to Imperial :—

		in Rx.	
1879	...	670,000	returned in 1882.
1886	...	400,000	
1889	...	740,000	
1894	...	405,000	returned in 1895.

Imperial to Provincial :—

1896	...	213,500	
1897	...	570,000	
1898	...	429,000	That is, 1,213,000 in all during these three famine years.
1898	...	700,000	Special grant.

The permanent gain to the Imperial Government by the revision of the Contracts was as follows :—

		£
1871	...	330,801
		Rx.
1877	...	400,000
1882	...	26,000
1887	...	630,000
1892	...	466,300
1897	...	...
	Total...	1,801,101.

1. F. S. 1899 p. 18.　　2. F. S. 1899, pp. 23-24

The Provinces contributed in all Rx. 2,215,000 of which Rx. 1,075,000 was returned, leaving Rx. 1,440,000. The Imperial Government helped the Provinces to the extent of Rx. 1,913,000 of which Rx. 1,213,000 was due entirely to famine and the remaining Rx. 700,000 was due indirectly to famine. On the whole the Imperial Government gave Rx. 773,000 more to the Provinces, than what it received from them. But in the meanwhile the Imperial Government had made a permanent gain of Rx. 1,801,101 a year by the frequent revisions of the Contracts.

The above sketch shows the unsatisfactory character of the system of Provincial Contracts. The powers of the Provincial Governments were greatly restricted. They were asked to increase their resources by economy and better administration. But they knew that during the currency of a Contract, a certain share of the increase in revenue due to their efforts went to the Imperial Government. Besides this, they were aware that at the end of every five years, the Imperial Government would deprive them of a certain amount from the increase in the Provincial share of the revenue assigned to them. In times of Provincial difficulty (e. g. famine), the Provinces were to exhaust most of their resources, and then only the Imperial Government would extend their helping hand. The determination of Provincial contributions to the Imperial Government was in the hands of the latter, and we have seen the way in which unexpected calls were made on the Provinces for this purpose. The occasions on which the Imperial Government demanded contributions were not in the nature of serious and unforeseen disasters. Not considering the policy of the Afghan War, we may say that the contributions of 1879 were necessary. But the difficulties in 1886, 1889 and 1894 were largely due to the extravagant policy of the Imperial Government themselves. In none

of these years, there was a large war (except the normal frontier expeditions), or any other disaster of a similar nature. The difficulties due to exchange though to some extent beyond their control, could have been met by the large additions to taxation, which were made from time to time. The increased expenditure due to the Forward Policy, and the construction of Public Works on a large scale were the chief causes of the difficulties of the Government of India. For these self-imposed difficulties of the Government of India, the Provinces were made to suffer. The whole civil administration was practically in the hands of the provinces. The Provincial Governments came in intimate touch with the people, whose growing wants it was their function to satisfy. As an example of the extent to which the Provincial Governments were starved for want of funds, we may take the expenditure on Education. Education was mainly a Provincial charge, and the figures in a subsequent chapter show the meagre efforts of the State to spread the light of education in the ignorant and poor cottages of India. The State expenditure on Education was about 2 per cent. of the net revenue at this time. The Government spent much less than an anna per head of population on education. The total amount spent on education from all sources, including municipal funds, fees and endowments, was much less than three annas per head in 1898.

From 1871, the Government of India had adopted an unnatural course. Their policy was to decentralise the system of finance. They did it with great hesitation and very slowly. The functions of the Provincial Governments were defined, and they were given certain limited resources for these purposes. The Provincial Governments were in charge of millions of people and each of them was under the necessity of an independent system of finance. What was wanted was to federalise the system of finance, and not simply to decentralise it or

to provincialise it to some extent. The functions of the Supreme Government ought to have been defined, and everything not included in that definition should have been left to the Provincial Governments. If for these specified functions, a sufficient sum had been annually taken out of the general revenues, leaving the rest to the Provincial Governments, the reform which has been inaugurated so late as 1919, could have been fully achieved many years ago.[1]

The taxing powers rested with the Government of India only. A part of the spending powers was given to the Provincial Governments. They could get some more resources if they managed the existing sources of revenue in a more efficient, that is, more rigid manner. They had less responsibility and hence less power. We have seen how in actual practice, this method did not conduce to economy. On the other hand the rigidity with which the Provinces were forced to administer the different branches of revenue made the pressure of taxation on the people heavier than ever.

Lord Mayo in introducing the system in 1871 had three objects in view:—(1) To lessen the interference of the Supreme Government in the administration of Provincial Finance; (2) to increase harmony between the Provincial and Imperial Governments; and (3) "the instruction of many peoples and races in a good system of administration", for as he believed the operation of his Resolution in its full meaning and integrity would afford opportunities "for the development of self-government, for strengthening municipal institutions, and for the association of Natives and Europeans to a greater extent than heretofore in the administration of affairs.[2]"

We have seen from the successive stages of the development of the system that the first object was achieved to

1. Cf. S. C. 1873, Q. 857-858.

2. See Council proceedings.

some extent; the fulfilment of the second was doubtful, because the system of the revision of Contracts and of Provincial Contributions was such as not to increase harmony between Imperial and Provincial Governments; whereas the third object was entirely lost sight of. The system from the beginning as well as in its later developments became a question of convenience for the Imperial Government, for which ingenious arrangements were made from time to time; the development of self-government, and the association of the people of India in the administration of the affairs of their country were ideas which were thrown in the background, till, when it was very late, they were accepted in 1919.

Quasi-Permanent Settlement, 1904.

In the explanatory memorandum to the Budget Estimates for 1904-05, the Financial Secretary pointed out the defects of the existing system. They were :—(1) the periodical revisions interfered with the continuity of Provincial finance; (2) the system encouraged extravagance; during the early years of a quinquennial settlement, the Provincial Governments would feel their way and be cautious about expenditure; in the latter years of the term, when probably the balances were large, there was a tendency to spend, lest a new settlement might diminish resources for expenditure; (3) the apportionment of revenue to the several Provinces had never been made on any definite or logical principle.

The new system of 1904 aimed at the removal of these defects and particularly the introduction of an element of relative permanence into the settlements. (1) It was decided to give the Provinces a permanent, instead of a merely temporary interest in the revenue and expenditure under their control. (2) The assignments to the Provinces were to include a slightly smaller share of growing revenues. (3) This share was calculated so that each Province

separately, and all the Provinces taken together might be placed in possession of an amount of growing revenues which bore approximately the same proportion to the Provincial expenditure as the Imperial share of growing revenues bore to Imperial expenditure. The heads of revenue, which were either Imperial, Provincial or divided mostly remained the same, but the Provincial shares of the divided heads were changed in accordance with this principle. The corresponding expenditure heads were also divided in the same ratio.

Considering the details, it was found that the total Provincial expenditure was less them one-fourth of the whole, while the Imperial expenditure was more than three-fourths. These ratios formed the basis of the division of revenue between Imperial and Provincial. Certain adjustments were however made "(1) to make allowance for the heads of revenue which are wholly Imperial or wholly Provincial as the case might be ; (2) to allow for a larger assignment to the more backward Provinces than to those which were more advanced ; and (3) to permit the provision being made for various administrative reforms and works of improvement which it is desired to undertake ".

The settlements made on these lines were permanent in the sense that they were not subject to periodical revision. The Government of India was ultimately responsible for the finances and administration of the country and as such reserved the right to revise the settlement of any or all Provinces at any time in case of necessity. This would happen when in course of time, unfairness had resulted to a province or provinces or to the Government of India, or when the alternative was to impose fresh taxation, or ask for help from the Provinces.

Permanent Settlements of 1912.

The inquiries of the Decentralisation Commission of 1909 and its report led to a complete review of the whole position regarding Provincial Settlements, and opportunity was taken to extend the system of 1904 a step further. The features of the new Settlements may be thus described[1]:—

In case of widespread famine, a distressed province may have to be helped from Imperial funds; in case of a war or a financial crisis, the provinces may be called upon to assist the Government of India. In the absence of such special emergencies, the Settlements were to be "fixed, rigid and permanent."

Ordinarily, a province was not to budget for a deficit. In exceptional cases, if the deficit reduced the provincial balance below the prescribed minimum, arrangements were to be made for its early restoration. In case a province exhausted its balance and was allowed to overdraw, it was required to pay interest on the amount so taken. If in spite of this the needs of a province overgrew its resources, it may propose fresh provincial taxation. The idea was that it was better for India as a whole that a province should tax itself than that it should live on its neighbours.

Against these restrictions were the advantages of a permanent settlement. The provinces were still entitled to share in any surplus which the Government may be in a position to distribute. Besides, the Government of India undertook that when the fixed assignment of a province under its Settlement became unduly high, it would be converted, wholly or partly, into a share of growing revenue. The minute control over the budgetary arrangements of the Provinces was not to be exercised. The Government of India would only interfere as regards the total revenue and expenditure in the Provincial Budgets

1. Cf. F. S. 1911-12, pp. 16-17.

and the figures of the major heads in which they had a share.

The effects of the new settlement may be summed up in the words of the Finance Member[1] :—

"From a purely financial point of view, the immediate effect of these changes is to convert the fixed assignments amounting to the imposing figure of $3\frac{1}{2}$ crores a year into growing revenue. In this way the normal annual growth of its resources in each province is brought much closer to the normal ratio of growth in its expenditure than has been possible in the past. It will now be the task of the Local Governments to see that these all important ratios are kept in steady equilibrium; for otherwise no settlement devised by the mind of man can save them from ultimate bankruptcy. It is not only by its immediate financial results, however, that the scheme that I have just been describing must be judged. It will also, I trust, be a measure of real decentralisation and administrative reform. It will give local Governments a more abiding interest in managing and directing their own resources; it will greatly reduce the occasions for interference by the central Government; and it will stimulate provincial independence and self-reliance. To the Government of India also it ought to mean much. It will relieve us from the unforeseen and indeterminate liability to which the Imperial revenues were formerly exposed by the financial difficulties of any individual province. To that extent it frees our hands for the closer regulation of our Imperial expenditure; and it enables us to lay down the lines of a consistent financial policy for the future. It marks a forward stage in the development of a political theory which has been steadily pursued for the last forty years. But it implies something more than theory; for I believe that the new arrangements will be found to be liberal by the provinces; and I regard them as necessary in justice to ourselves and to the general taxpayer of India".

This system was in operation till 1920. A glance at the actual figures of revenue and expenditure for that year will enable us to realise the distribution between the Provinces and the Imperial Government as it stood before the Reforms[2].

1. F. S. 1911-12, paragraph 56.
2. See the relevant table in the appendix.

Under the Reforms.

With the introduction of a popular element in the Provincial Governments, their financial relations with the Central Government had to be radically changed. The theory underlying the new system that has been brought into force may be explained in the words of the Montagu-Chelmsford Report :—

"We start with a change of standpoint. If provincial autonomy is to mean anything real clearly the provinces must not be dependent on the Indian Government for the means of provincial development. Existing settlements do indeed provide for ordinary growth of expenditure, but for any large and costly innovations provincial Governments depend on doles out of the Indian surplus. Our idea is that an estimate should first be made of the scale of expenditure required for the upkeep and development of the services which clearly appertain to the Indian sphere; that resources with which to meet this expenditure should be secured to the Indian Government; and that all other revenues should then be handed over to the provincial Governments, which will thenceforth be held wholly responsible for the development of all provincial services." (paragraph 201).

In order to put these ideas into practice, a complete separation between the finances of the Central and Provincial Governments became necessary. It is to this end that the scheme given in chapter VIII of the Montagu-Chelmsford Report was outlined. The scheme removes the system of "divided heads" of revenue and expenditure; making on the whole certain heads entirely Imperial and others entirely Provincial. The proposed rearrangement meant a heavy loss to the Government of India, for which they were to be compensated by contributions from the Provinces. It was understood that these contributions were to be abolished as soon as possible. In order to consider these and allied questions, Lord Meston's Committee on Financial Relations was appointed. We do not propose to discuss the report of that Committee

in detail; it is sufficient for our present purpose to give their conclusions with the reasons on which they were based.

The Meston Award.

A detailed calculation was made about the resources of the different Governments, Provincial and Central as they would stand with the abolition of the divided heads, as explained above. The All-India deficit was estimated at 983 lakhs of rupees, and the question was considered as to how the provinces should contribute to make up for this deficit. Not going into the various alternatives that were before the Committee, we may state that they recommended two kinds of contributions, initial and standard. The former were based upon a detailed consideration of the existing financial position of the provinces and the immediate improvement that was likely to be effected therein under the new scheme. In arriving at the standard contributions the Committee took "into consideration the indirect contributions of the provinces to the purse of the Government of India, and in particular the incidence of customs duties and of income tax." They also "inquired into the relative taxable capacities of the provinces, in the light of their agricultural and industrial wealth and of all other relative incidents of their economice positions, including particularly their liability to famine."

The idea of giving financial autonomy to the Provinces which necessitated these changes also involved similar other changes, viz: (1) a separation of the Provincial and Central Budgets; (2) removal of restrictions on the financial powers of the Provinces; granting of powers to the Provinces in the matter of (3) taxation and (4) borrowing.

The details of the financial relations between the Provinces and the Central Government under the Reforms are given in the Devolution Rules made under the Act o

1919. Some of the more important features of these relations are summarised below:—

In order to distinguish between the functions of the Provincial and Central Governments we have a classification of subjects into (1) Central subjects and (2) Provincial subjects. The more important of the Provincial subjects are :—Local Self-Government ; Medical, Public Health and Sanitation ; Education ; smaller Public Works and Irrigation ; Land Revenue, Agriculture, Co-operation, and Famine relief; Justice and Police ; Excise, Industries, etc. The remaining subjects of an All-India nature are considered Central subjects.

Sources of Revenue.

The following are the principal sources of revenue assigned to the Central and Provincial Governments :—

Central.	Provincial.
Opium.	Land.
Salt.	Excise.
Customs.	Stamps.
Taxes on Income.	Registration.
Tributes.	Forests.
Receipts from Central Departments.	Receipts from Provincial Departments.

In addition to the above, the Provinces can have further sources of revenue from loans or from fresh taxation, under certain conditions. Besides, they get a small share "in the growth of revenue derived from income tax collected in the province so far as that growth is attributable to an increase in the amount of income assessed."

The payment of all provincial revenue is to be made into the public account of which the Governor-General in Council is the custodian and credited to the Government of the Province.

Provincial Contributions.

The initial contributions for the year 1921-22 were :—

Province.	Lakhs of rupees.
Madras	348
Bombay	56
Bengal	63
United Provinces	240
Punjab	175
Burma	64
Central Provinces and Berar ...	22
Assam	15
Total ...	983

In future years, when the total contribution required by the Government of India is smaller than 983 lakhs, the burden of each province will be reduced so that in course of time the standard contributions[1] recommended by the Meston Committee may be reached. In case of emergency, a province may be called upon to pay a larger contribution than that specified above. These contributions are a first charge on provincial revenues.

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1. The Standard Contributions are :—

Province.	Percentage contribution to Central deficit.
Madras	17
Bombay	13
Bengal	19
U P	18
Punjab	9
Burma	6½
Bihar and Orissa	10
C P.	5
Assam	2½
	100

Balances.

The provinces are free to draw upon their balances after due notice to the Central Government though in cases of emergency the latter may not allow provincial balances to fall below a certain minimum in each case. If the Central Government is not able to allow a Provincial Government to draw upon its balance, the latter is entitled to receive interest on the amount in question.

Provincial Loan Account.

The sum owed by a Province to the Central Government on 1st April 1921 is to be considered an advance to the Provincial Government from the revenues of India and is to carry interest. The principal amount is to be repaid ordinarily within twelve years.

The capital expenditure incurred on irrigation works transferred to the provinces is to be considered as an advance to the Provincial Governments on which interest is to be paid according to certain rules. The interest charges and the repayment of the principal amount referred to above are to have a priority after the contributions.

Famine Insurance Fund.

The provinces are required to set apart certain amounts of money every year for this purpose. The details are explained in the chapter on the Famine Insurance Grant.

Borrowing Powers.

A Provincial Government may raise loans on the security of its revenues in order :—(a) "to meet capital expenditure on the construction or acquisition of any work or permanent asset of a material character in connection with a project of lasting public utility", under certain conditions; to meet expenditure on (*b*) irrigation works, (*c*) famine relief, (*d*) financing of the Provincial Loan Account or (*e*) the repayment or consolidation of loans already raised. The raising of such loans is however subject

to the sanction of the Central Government or the Secretary of State, if the loan is to be raised in England. The interest on such loans is to have a priority to all other payments by the Provincial Government after the payment of (1) contributions, (2) interest on advances from the Central Government and (3) interest on existing Provincial loans.

Powers of Taxation.

The Provincial Legislature is allowed to impose certain fresh taxes under the Reforms, either for the purposes of the Provincial Government or of a local authority. Among the former are :—Taxes, fees or duties on (1) land put to uses other than agricultural, (2) on succession or on acquisition by survivorship in a joint family, (3) any form of betting or gambling permitted by law, (4) advertisements, (5) amusements, (6) any specified luxury, (7) registration, (8) stamps, other than duites of which the amount is fixed by Indian legislation.

Taxes (including cesses, rates, duties or fees) allowed for local authorities are :—(1) toll, tax on (2) land or land values, (3) buildings, (4) vehicles or boats, (5) animals, (6) menials and domestic servants, (7) an octroi, (8) a terminal tax, (9) tax on trades, professions and callings, (10) on private markets, (11) tax imposed in return for services rendered, such as (*a*) a water rate, (*b*) a lighting rate, (*c*) a drainage tax, (*d*) a scavenging, sanitary or sewage rate, (*e*) fees for the use of markets and other public conveniences.

Critique of the Present Position and the Future.

The financial relations between the Central and Provincial Governments and especially the Provincial Contributions have been a source of great controversy since the Reforms. The early years of the Reforms have been remarkable for a tale of large deficits both in the Central and the Provincial Governments. On the one hand, in spite of additional taxation and retrenchment,

the Central Government is still far from the promised goal of the abolition of these contributions, on the other the expanding needs of the Provincial Governments for what are known as the nation building departments remain unfulfilled for want of funds. In addition to this general complaint, almost every Province complains that in the matter of these contributions it has been treated unfairly compared with the others. It is not our purpose to go into the details of this controversy ; it is enough to point out that it is universally felt that the sooner the Meston arrangements come to an end, the better for all concerned. The chief obstacle in the way however is the absence of equilibrium in the finances of the Central Government. Once this equilibrium is achieved, the way for a more permanent and equitable financial arrangement with the Provinces will be open. The tendency seems to be in the right direction, *viz.*, a system of federal finance, in which the Provinces will be independent financial units, co-operating with or helping the Central Government in emergencies. The Conference of Finance Members convened by Sir Basil Blackett some months ago, seems to have discussed this problem. It may be hoped that at the next opportunity Sir Basil will try to improve upon this embarrassing situation.

CHAPTER III.

FINANCIAL MACHINERY.

The Scope of the Chapter.

It is intended to give a brief idea of the financial machinery or the system of financial administration in India, in this chapter[1]. In this work, which is primarily concerned with Indian Public Finance in its economic aspects, a detailed discussion of administration would be out of place. We shall be content, therefore, with a general survey of the administrative machinery, just sufficient to enable the reader to follow the details of Financial Developments in Modern India. In doing so we shall not repeat the discussion of those aspects which have been already treated at some length in the last two chapters. On account of the importance of figures in a work like this, and on account of their inherent complexity, a separate chapter will be devoted to Indian Financial Statistics.

The Secretary of State.

We have already discussed the large financial powers exercised by the Secretary of State. The budget and particularly proposals relating to taxation are subject to his previous sanction. The ways and means operations, transactions relating to Council Bills, the Gold Standard and Paper Currency Reserves and the purchase of silver, the currency and exchange policy, loan operations in London, and questions relating to the All-India services—are all controlled by the Secretary of State.

In order to look after these affairs, there is a Finance Department in the India Office, with two Financial

1. A greater portion of this chapter has been based on "The System of Financial Administration in British India" (1923), by Mr. P. K. Wattal. For a detailed treatment of this subject, the reader is referred to this excellent work of which I have made a free use in this chapter.

Secretaries. Either the Permanent Under-Secretary or one of the Assistant Under-Secretaries is also a man with financial experience. Besides, there is the Accountant-General who is in charge of some portion of financial work.

The Finance Committee:—This is one of the committees of the Council of India to advise the Secretary of State on financial questions. The recommendations of this committee are submitted by the Permanent Under-Secretary to the Secretary of State for his orders, except in those cases where by the provisions of the Act, a concurrence of a majority of votes of the Council of India is necessary.

The Government of India.

The Governor-General in Council is the final authority in India for all financial questions. The Finance Member of the Council is the adviser on these questions, and presides over the Finance Department. On account of the separation of functions between the Central and Provincial Governments, the Central Government is responsible primarily for the finance of central subjects.[1]

Functions of the Finance Department.

The heads of business dealt with in the Finance Department of the Government of India include[2] :—

(1) Public accounts and estimates.

(2) Public expenditure.

(3) Public ways and means, including loans to and from the public treasury.

(4) Management of the public funds.

(5) Taxation.

(6) Provincial finance.

(7) Borrowing of provincial governments.

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1. Certain large financial powers are delegated by the Secretary of State to the Government of India under the proviso to section 21 of the Act. These have been further delegated by the Government of India to subordinate authorities, and rules have been framed defining their financial powers.

2. Taken from Wattal, Ibid, pp. 12—13.

(8) Alienations of revenue and of land.

(9) Opium, salt, customs, (excluding tariffs, which are dealt with in the Department of Commerce), income-tax, super-tax; as also excise and stamps in territories directly administered by the Central Government.

(10) Currency and Banking, including—
  (a) Mints;
  (b) Coinage;
  (c) Paper Currency; and
  (d) The Imperial Bank of India.

(11) Pay and allowances of public officers, including—
  (a) Salaries and acting allowances;
  (b) Leave allowances;
  (c) Travelling allowances; and
  (d) Pensions.

(12) The Indian Audit and Accounts Service.

(13) Army Finance.

(14) The Military Account Department.

The Finance Department is divided into two brancehs:—(1) the Civil Branch and (2) the Military Branch. The second is known as the Military Financial Advisor's Branch, and deals with heads (13) and (14) in the above list. The Civil Branch is concerned with the remaining heads.

The Governor-General and the Finance Member:—In the matter of cases which have to be submitted to the Governor-General, if he agrees with the Finance Member, it may either be disposed of by him or brought before the Executive Council. If he does not so agree, the matter has to be brought before the Executive Council.[1]

Finance Member in relation to expenditure:—In addition to the above procedure, which also applies to other departments of the Government of India, there are certain provisions specially applicable to the Finance

1. Questions referred to the Executive Council are dealt with according to the provisions of section 41 of the Act.

Department. Ordinarily the decision of the majority of the Executive Council is binding except where it is overruled by the Governor-General under section 41 (2). But when the Finance Member is in a minority, and is supported by the Governor-General the matter has to be referred to the Secretary of State in council.

Another special rule provides that proposals involving either an abandonment of revenue or incurring of expenditure should ordinarily, be first referred to the Finance Department.[1] In exceptional cases where expenditure is authorised by the Governor-General, the Finance Department is to be informed about the matter.[2]

It has also been provided that no subordinate authority can sanction expenditure involving a new principle or practice leading to increase in expense, unless with the previous consent of the Finance Department.[3] For all excesses over grants voted by the Assembly, the Finance

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1. "No proposal involving an abandonment of revenue for which credit has been taken in the budget, or involving expenditure which has not been provided for in the budget, or which, though provided for has not been specifically sanctioned, shall be brought forward for the consideration of the Governor-General-in-Council, nor shall any orders giving effect to such proposals issue, without a previous reference to the Finance Department."

2. "In cases which, in the opinion of the Governor-General, require great secrecy and despatch, expenditure may be authorised under the Governor-General's written orders without a previous reference to the Finance Department, but every such order must be communicated to that Department."

3. Cf. Para 12, Government of India memorandum on finance for the Feetham Committee :—"The effect of this procedure is to give the Finance Department an opportunity of criticising all new expenditure of any importance and of also inviting the department in the Government of India which is interested in the purpose of the expenditure to examine the project in its administrative aspects. It can challenge the necessity for expenditure; it can bring to notice obvious objections or extravagencies; it can call for facts to which it considers that sufficient weight or sufficient publicity has not been given."

Department is responsible to it, and hence such excesses cannot be sanctioned by other departments without the consent of the Finance Department. In the case of large spending departments, such as the Army, Railway, Posts and Telegraphs, officers known as Financial Advisers or Commissioners are attached. The views of these officers cannot be overruled without a reference to the Finance Member.

Finance Member in relation to reveune :—Any proposal which involves the abandonment of revenue already taken credit for, in the budget, must be referred to the Finance Department. This department directly controls the large revenue departments such as Customs, Income Tax, Salt and Opium, through he Central Board of Revenue. By means of periodical reports about the progress of the collection of revenue, the Finance Department keeps itself in touch with the financial situation affecting the Central Government. In this way, the control of both expenditure and revenue is vested in the Finance Department, and "no proposals tending to increase budgetted expenditure or diminish revenue to any material extent can be given effect to without their coming at some stage or other to the congnisance of the Finance Department."

Other Financial Officers.

The important officers below the Finance Member are :—

(1) At the head-quarters of the Government of India—
 (*a*) The Financial Secretary.
 (*b*) The Comptroller and Auditor-General.
 (*c*) The Controller of Currency.

(2) At the head-quarters of the Provincial Governments—
 (*d*) The Civil Accountant-General.
 (*e*) The Deputy Controller of Currency.

(3) In the Provinces—
 (*f*) Officers in charge of district treasuries, so far as their duties are treasury duties.

(*a*)—*The Financial Secretary* is the head of the Finance Department of the Government of India. As in other departments, he is not a Secretary to the Member in charge, but to the Government of India. He has direct access to the Governor-General, and cases in which he differs from the Finance Member might be referred to the Governor-General.

(*b*)—*The Comptroller and Auditor-General* is the head of the Indian Finance Department which is a service of officers performing financial duties all over India, and "subject directly and solely to the authority of the Government of India in the Finance Department." The title Comptroller and Auditor-General shows the dual functions of the holder of this office. As Comptroller-General he is subordinate to the Government of India, is the administrative head of the department, and is responsible for the compilation of the accounts of India as a whole. As Auditor-General, he is responsible to the Secretary of State by whom he is appointed, and to whom his Audit and Appropriation Report is submitted.

(*c*)—*The Controller of Currency* is in charge of currency operations including the minits, ways and means and resource operations, the work connected with the regulation of the rupee-sterling exchange, and generally the banking and credit system of the country with which the Finance Department is closely connected. The office of the Controller of Currency is located in Calcutta.

(*d*)—*The Civil Accountants-General* act as the deputies in the Provinces both of the Comptroller and Auditor-General and of the Controller of Currency. The position of these officers has undergone a material change under the Reforms. The Civil Accountant-General is the head of the Account Office in his Province. Though the Central and Provincial accounts have been completely separated, separate agencies for the auditing and

accounting of Central and Provincial transactions have not been established.

(*e*)—It has been recently decided that the Civil Accountant-General shall be relieved of his duties in the matter of currency and resource operations. For this purpose, separate officers called *Deputy Controllers of Currency* have been appointed at Calcutta, Bombay and Delhi. In Madras and Burma, the Civil Accountant-General is still in charge of currency duties.

(*f*)—*The Treasury Officer* in the district has to carry out the orders of the Deputy Controller of Currency in questions connected with currency and resource operations. In those places where a Deputy Controller of Currency is not in charge of these functions, the Civil Accountant-General issues the necessary orders. In respect of accounts and audit, the treasury officer gets his instructions from the Accountant-General. Usually, the treasury officer who is a member of the Provincial Civil Service, has other functions for which he gets his orders from the District Collector.

The "district treasury" is the unit of the financial system of India. There are about 300 district treasuries and more than 1,200 sub-treasuries scattered over the country. Generally speaking the public receipts are paid into these treasuries and the public payments are made from them, particularly the district treasuries. At the Presidency towns, and at every other place, where the Imperial Bank (formerly the Presidency Banks) has a branch this work is done by the bank on behalf of the Government. In other cases, the treasury work is in the hands of a special officer of the grade of a Deputy Collector. In England, the treasury work is centralised; all public receipts and payments are made at the Banks of England and Ireland. With the various treasuries spread over the

whole country, this work may be said to have been decentralised in India[1].

The *initial accounts* prepared on this basis at the treasuries are compiled into a monthly account and sent to the Provincial Accountant-General. The next stage is *Classification* of the accounts according to the different items of receipts and payments. This work is done in great detail and there are elaborate rules for the same. The third stage is *Audit.* This may be defined as ensuring "as regards receipts, that all sums receivable by Government are dully received and recorded, and as regards expenditure, that it is duly authorised, acknowledged and recorded". The last stage is *Compilation.* The monthly accounts thus classified and audited are then sent to the Comptroller and Auditor-General to the Government of India. This officer also receives the monthly accounts of Indian transactions in England carried on by the Secretary of State, and now also by the High Commissioner. It is out of this material that the consolidated monthly account for the whole of India is compiled. The annual account similarly made up is presented to the Secretary of State and to the Parliament.

Provincial Finance Department.

The constitution of the Provincial Finance Department has been laid down in Devolution Rule 36, which reads as under :—

> (1) There shall be in each Governor's province a Finance Department, which shall be controlled by a member of the Executive Council.

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1. It may be noted that in the case of certain large departments, *viz.*, the Railway, Military, Forests, Post Office and Telegraphs, the payments into the treasuries are not made directly by the debtors of Government but in lumps through the departmental officers. Payments also are made by cheques on the treasury or from lump sums drawn from the treasury by the departmental officers. (Introduction to Indian Government Accounts, page 2).

(2) Immediately subordinate to the member there shall be a financial secretary, with whom shall be associated, if the ministers so desire, a joint secretary appointed by the Governor after consultation with the ministers.

(3) The joint secretary shall be specially charged with the duty of examining and dealing with financial questions arising in relation to transferred subjects and with proposals for taxation or borrowing put forward by any minister.

The functions of this Department have been described in detail in Devoluion Rules 37 to 45. Their general nature may be thus explained. (1) In its relation to revenue departments, the Finance Department will enforce efficient assessment and collection of all kinds of state receipts. (2) All schemes involving new expenditure, and the way in which the necessary budget provision should be made for them are examined by the Finance Department. This is a preliminary to *budget sanction.* (3) When an item has been inserted in the budget and passed, it does not mean that it is an order to spend the money. It only means that the proper executive authority can sanction the expenditure. The *expenditure sanction* cannot be given without the consent of the Finance Department. (4) No public office can be created or its remuneration determined without prior consultation with the Finance Department. (5) It is the duty of the Finance Department to see that no re-appropriation of grants or unauthorised charges are made which go beyond the intentions of the Legislature.

The Preparation of the Budget.[1]

During winter the various Executive Departments in the country prepare their esitmates for the coming

1. "This term, first applied in England to the annual financial statement, has in other countries and in theoretic discussion come to mean the financial arrangements of a given period, with the usual implication that they have been submitted to the legislature for approval. There is therefore a combination of the ideas of (1) a valuation of receipts and expenditure, or a public balance-sheet, and (2) a legislative act establishing and authorising certain kinds and amounts of expenditure and taxation. The convenience of the term as including the several steps of financial legislation and control is so great that it is in that wider sense that we shall use it." Bastable, Public Finance, pp. 734–35.

financial year beginning on 1st April. Generally, the spade work begins in September. This means that the estimates are prepared long before they are put into execution. These estimates are not likely to be very accurate for they cannot take notice of the south-west monsoon (June to October) on which the success or failure of the agricultural operations of the year depend, which in their turn affect the revenue considerably. The recommendation of the Chamberlain Commission[1] in favour of a change in the date of the commencement of the financial year did not find unanimous support and has been dropped. One of the consequences of the preparation of the budget estimates a long time ahead of their execution is the tendency on the part of executive officers to under-estimate revenue and over-estimate expenditure, with a view to err on the safe side.

The Central Estimates.

(1) *The Civil Estimates* include *(a)* those relating to the civil departments and *(b)* those relating to territories directly administered by the Central Government. These are chiefly compiled by the Accountant-General, Central Revenues.

(2) *The Non-Civil Estimates* are those relating to the Military, the Railways and the Posts and Telegraphs. The Military Estimates are prepared by the Military Financial Adviser and the Accountants-General of Railways and of Posts and Telegraphs respectively are responsible for the estimates of these departments.

(3) *The India Office Estimates* are prepared under the direction of the Secretary of State by the Accountant-General, India Office. Similarly, the *High Commissioner's Estimates* are prepared by his Chief Accounting Officer. Both of these are forwarded to India in due course.

1. Cf. Report, paras 128 and 190.

The Provincial Estimates.

The Provincial Governments prepare the estimates of revenue and expenditure under their charge. Up to 1920, however, their estimates were subject to examination by the Accountant-General, who represents the Central Finance Department in the Province. The functions of this officer were advisory. These estimates were sent about the middle of January to the Central Finance Department, where they were considered with reference to the rules governing the administration of provincial revenue and expenditure. There was no interference in details; only the total figures were examined and corrected, if necessary. The necessity for this reference to the Central Government of the Provincial Budgets does not exist under the Reforms. It is necessary for the Provinces, however, to get the sanction of the Central Government in certain financial arrangements, which have been discussed in the preceding chapter.

Stages of Budget Preparation.

The different stages through which the Central Estimates pass may be thus summarised[1] :—

(1) Preparation of the estimates by heads of offices.

(2) Scrutiny of the estimates by departmental controlling officers.

(3) Further preliminary scrutiny of the estimates by :—

   (*a*) The Accountant-General.

   (*b*) The Administrative Department of the Government.

   (*c*) The Finance Department.

(4) Forecast of probable revenue and expenditure for the next year.

(5) Consolidation and review of the estimates by the Accountant-General in his budget notes and submission of the same to the Finance and the Administrative Departments.

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1. Taken from Wattal, Ibid, pp. 30–31.

(6) Scrutiny of new items of expenditure by the Finance Committee of the Legislature and the issue of orders by the Finance Department on the budget notes submitted by the Accountant-General.

(7) Submission by the Accountant-General of the first edition of the budget notes on the revised estimates of the current year and the budget estimates for the next year, after incorporation of the orders issued by Government on the original notes submitted by him.

(8) Consideration of the first edition of the estimates by the Government collectively and the issue of orders thereon to the Accountant-General.

(9) Further review of the estimates (both revised and budget) by the Accountant-General in his second edition of the budget notes to the Finance Department.

(10) Final compilation of the estimates and their presentation to the Legislature.

The Voting of the Budget.

After the Budget has been approved by the Executive Government, it is submitted to the Legislature usually on the 1st of March.[1] The financial year ends on 31st of March, and the results of the completed year cannot, therefore, be given. Hence the necessity of preparing the Revised Estimates of the expiring year. These include the actual revenue and expenditure of about ten months, and estimates of the remaining two months. It may be noted that the Final Accounts of a year sometimes vary considerably from the Revised Estimates. The Budget is, therefore, accompanied by three statements:—(1) the Budget Estimates of the coming year; (2) the Revised Estimates of the year about to close; and (3) the Final Accounts of the preceding Financial year.

In England, the Budget is presented as a rule after the close of the financial year. The Chancellor of the

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1. The Budget for 1924-25 was presented on 29th February 1924.

Exchequer does not therefore require a revised estimate; he has to compare the budget estimate with the completed exchequer account.

Another difference between the Indian and English budgets may be noted. Payments are daily made into the account of the Exchequer at the Bank of England by the revenue departments in London. They reserve only a certain margin for themselves. Similarly, daily issues are made from the Exchequer account to the spending departments at the instance of the Treasury. These receipts and issues are made up daily, and the Chancellor of the Exchequer, unlike the Indian Finance Member, can know any evening an account of his income and expenditure. It is these Exchequer receipts and issues which form the basis of the English Budget, and not the revenue actually received and the expenditure actually incurred as in India. The Parliament is content with these figures, and the detailed comparison of these Exchequer receipts and issues with the final accounts is left to the Committee of Public Accounts. Experience shows that the difference is not material. The Indian Budget is based on revenue to be actually received and expenditure to be actually incurred within the year, and the accounts refer to these actual results. It is obvious that this system involves delay, compared with the promptness of the English system.

In presenting the Budget to the Legislature, the Finance Member delivers a speech which is generally an important document. Usually, he reviews the general economic and financial conditions of the year about to close, points out the variations between the budget and revised estimates with their causes, and explains the estimates for the coming year. This is accompanied by proposals regarding the expected surplus or deficit. The Ways and Means position of the year about to close, and of the coming year is also explained. The members

of the Legislature are also supplied with several other volumes[1] to help them to understand and criticise the estimates in detail.

General Discussion :—Some time after the presentation of the Budget, a general discussion on it takes place in both the Houses. Questions of detail are reserved for a later stage. At this stage, members are allowed to discuss subjects like defence, which are non-votable under section 67A (3) of the Act.

Voting of Grants :—The second stage of the Budget debate is the voting of grants in the Assembly.[2] Not more than two days are allowed for any one grant. When the time allotted for all the grants expires, the President is required to put every question necessary to dispose of the remaining grants. Usually the Assembly is asked to sanction a separate grant for each major head of account.

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1. The following papers are supplied to the members of the Legislature at the Budget session :—

(1) Speech of the Finance Member introducing the Budget.

(2) Budget of the Government of India.

(3) Notes explaining the details under certain heads of the estimates.

(4) Explanatory memorandum on the Railway Budget.

(5) Estimates of expenditure on Military Services.

(6) Detailed Estimates and Demands for Grants.

(7) Appendix A to (6). Detailed statements re.-Posts and Telegraphs.

(8) Appendix B to (6). State Railways. Details of expenditure chargeable to revenue.

(9) Appendix C to (6). State Railways. Details of expenditure not charged to revenue.

(10) Finance Bill.

2. For this purpose, a maximum number of 15 days are allowed under the rules, though hitherto only 6 days have been allotted.

The demands for grants relate to expenditure out of revenue and capital as well as to disbursements under debt and remittance heads.

In the case of a demand for grant, the Assembly can either refuse it altogether or reduce it, but it cannot increase it. Motions on the demands for grants are of two kinds. When the object is to introduce economy a motion giving the amount proposed to be reduced from a particular grant is made. When, however, the object is to discuss the policy of a particular department or to get more information regarding a particular estimate, a nominal cut, say of Rs. 100 is proposed. When such a motion is pressed to a division and carried, it amounts to a vote of censure.

The Executive has the power to restore rejected or reduced grants unaer section 67A (7). Besides, there is an emergency power under subsection (8) of the same section, by which the Governor-General can authorise expenditure not provided for in the budget. The use of this power is to be made when the Assembly is not in session and extraordinary events require it.[1]

Supplementary, Excess and Token grants:—If on account of any reason, a grant passed by the Assembly is likely to be insufficient, the Government has the power to make a fresh demand from the Assembly. This is known as a supplementary grant. The procedure in this case is the same as in that of the original demand.

Sometimes the fact that a grant is insufficient is not detected till the end of the financial year, when it is found that an excess amount has been already spent. To regularise this " excess," what is known as a demand for excess grant has to be made, the procedure being the same as in the above case.

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1. Cf. Legislative Assembly Debates, Vol. III, p. 4457.

Sometimes supplementary or excess grants are met by means of reappropriation from another grant. In order to bring this to the notice of the Legislature, a nominal demand for, say Rs. 100 is made with an explanation of the proposed reappropriation. This is known as a token grant.

Non-votable items :—As explained in chapter one,[1] certain items of expenditure including defence, are not subject to the vote of the Assembly. These items amount to about half the total expenditure of the Central Government. This has created the anomalous situation by which the Indian Legislature is required to sanction taxation for expenditure, which it cannot control.

The Finance Committee :—This is one of the Standing Committees of the Legislature[1]. It consists of 10 elected members of the Assembly with a Chairman nominated by the Governor-General. Proposals for new votable expenditure, allotments out of lump sum grants, and suggestions for retrenchment and economy are considered by the Committee. It is to give general assistance and advice to the Finance Department on matters referred to it. Questions which the Assembly is not competent to consider are not referred to it, though in some cases the Finance Department may seek its advice.

The Finance Bill :—When the voting of supplies is over, consideration is naturally given to the question of raising the necessary resources. This is obviously the most cherished privilege of the representatives of the people. Under the Reforms, the taxation proposals of the Government are embodied in one Bill, known as the Finance Bill. This is submitted first to the Assembly.

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1. See pp. 10 and 11.

1. Cf. para. 285 of the Montagu-Chelmsford Report. The Committees have no statutory basis.

The procedure in regard to this bill is the same as in the case of other ordinary bills, and it has to be passed by both the Houses. The duration of the Finance Act is only one year.[1] This enables the Legislature to review the taxation and administrative policy of the Government every year.

As in the case of demands for grants, the Legislature can either reduce or reject the taxation proposals, but cannot propose an increase in taxation.

Constitutional Crisis:—When either Chamber refuses to agree to the amendments made by another in a Bill a deadlock might arise. To remedy such a situation two methods have been provided :—(1) negotiation and (2) joint sitting. In a joint sitting, the Assembly with its larger number would be at an advantage. Besides, a joint sitting can be held after a lapse of six months, and hence would be of no avail if the deadlock occurred on a Finance Bill, because the Government cannot afford to allow such a Bill to wait for six months. When the other remedy, namely negotiation between the two houses fails, the Governor-General has to use his constitutional powers to make the Finance Bill effective as an Act.

In the Budget debate on the Finance Bill for 1923-24, the proposal to double the Salt Duty was rejected by the Assembly. The Bill was sent to the Council of State with a recommendation from the Governor-General to accept the enhanced Salt Duty and was passed. It was then again sent to the Assembly with a similar recommendation, but the clause relating to the Salt Duty was again

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1. Customs and Excise duties are allowed to remain in force, unless otherwise directed. This is done in order to remove uncertainty in commercial operations.

It may be added that the Finance Bill has temporary effect from the date of its introduction. This is necessary in order to save Government revenue.

rejected. The Governor-General then used his powers under section 67 B (1) and certified the Bill, which thus became an Act.

In the Budget debate on the Finance Bill for 1924–25, leave to introduce the Bill was not granted by the Assembly. A different procedure was adopted on this occasion.[1] The Bill was again submitted to the Assembly on the next day with a recommendation from the Governor-General to grant the necessary leave to introduce it. The Assembly again rejected it without a division. It may be added that on this second occasion some of the more objectionable features of the original bill, such as the high Salt-Duty, were removed by the Governor-General. In this "emasculated"[2] form, it was sent to the Council of State with a certificate from the Governor-General, that the provisions of the Bill were essential for the interests of British India, and it was passed in that house without amendment. The Governor-General then gave his assent to it.

Execution of the Budget.

Once the Finance Bill has passed through the Legislature, the work of distributing the grants to the various spending departments and officers begins. It is not our purpose to go into the details of the way in which the provisions of the budget are executed. We shall confine ourselves to the more important aspects of this stage, and particularly to the control of the Finance Department in the spending of public money.

There are two essential conditions which must be fulfilled before public money can be spent:—

(1) There must be an act of sanction of an authority competent to sanction.

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1. This was done under new rules which were published only two days before the event, and evoked considerable criticism.

2. Sir Basil Blackett referred to it as his emasculated bill.

(2) There must be an act of appropriation[1] of funds for the purpose, by an authority competent to appropriate.[2]

When the expenditure on an item exceeds that provided for it in the budget on account of unforeseen reasons, funds have to be found for it either by fresh appropriation or by reappropriation.[3] Such changes can be made within a particular grant only, for if the total amount voted for a certain grant is exceeded the sanction of the Assembly becomes necessary. In some cases such re-appropriations have to be sanctioned by the Finance Committee; in others by the Finance Department. In some cases, the Finance Department of its own motion prefers to get the sanction of the Committee. The following rules have been laid down defining the powers of the Finance Department in the matter of appropriation[4]:—

Appropriation:—Without the previous consent of the Finance Department—

(a) funds may not be appropriated to meet any item of expenditure which has not been sanctioned by an authority empowered to sanction it; and

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1. "Appropriation means the assignment, to meet specified expenditure, of funds at the disposal of the assigning authority. All sanctions to appropriation (or re-appropriation) specify the major and minor heads and the primary units of appropriation effected. An appropriation (or re-appropriation) can be authorised at any time before, but not after, the expiry of the financial year. It is intended to cover all the charges, including the liabilities of past years, to be paid during the year or to be adjusted in the accounts of it. It is operative until the close of the financial year. Any unspent balance lapses to the Finance Department and is not available for utilisation in the following year. After the date of closing of the financial year, *viz.*, the 31st March, all cash and stock transactions are treated as pertaining to the following year, but *bonafide* transfer entries are permissible for some months." Wattal, Ibid, pp. 94–95.

2. These two conditions are taken from Wattal, Ibid, p. 96.

3. "Re-appropriation means the transfer of funds from one unit of appropriation to another such unit. The other remarks made above regarding appropriations apply also to re-appropriations." Wattal, Ibid, p. 95.

4. Taken from Wattal, Ibid, pp. 100-101. In the case of Provincial revenues, the powers of re-appropriation are defined in Devolution Rule, 38.

(*b*) funds allotted for non-voted items of expenditure may not be appropriated to meet votable items, and funds allotted for voted items may not be appropriated to meet non-votable items.

Re-appropriation :—Without the previous consent of the Finance Department—

(*a*) an authority may not meet by re-appropriation expenditure which it is not empowered to meet by appropriation;

(*b*) no re-appropriation may be made from one grant voted by the legislature to another such grant;

(*c*) funds allotted for non-voted items of expenditure may not be re-appropriated to meet votable items, and funds allotted for voted items may not be re-appropriated to meet non-votable items;

(*d*) no re-appropriation may be made to meet any expenditure, other than contingent expenditure, which is likely to involve further outlay in a future financial year; and

(*e*) no re-appropriation may be made from a primary unit allotted under the head Pay of Officers to any other primary unit.

Audit.

The duty of the Legislature does not end with the passing of the budget. It is necessary to see that its intentions are properly carried out by the Executive. In order to achieve this end an efficient system of audit by a set of officers independent of the Executive is essential.

Several attempts were made to improve the system of audit in India before the Reforms. It had become highly complicated by elaborate codes, rules and forms. It did not generally challenge the wisdom of expenditure which had been incurred apparently under the orders of a proper authority.

Before the Reforms, audit officers were in addition to their audit duties, in charge of currency and resource operations. It has now been decided to relieve the audit officers of this work by the appointment of Deputy

Controllers of Currency in certain places. So far as other aspects of the audit machinery are concerned, no great change has been made. The work of audit and accounts is not separated, and it remains under the control of the Central Government. The Provincial Governments get the services of audit officers, but in the matter of control, discipline and method, the latter are independent of the former.

The Government of India have further announced their intention to simplify in course of time the "tangled mass of financial codes and regulations." The idea underlying the change is twofold, first, to give more leisure to the audit officers from laborious routine, to leave them more free to use their discretion and judgment in the discharge of the greater responsibility that will be laid upon them. Second, the audit officers are to be encouraged to use their initiative, and do their work with greater regard to general principles of public finance. Instead of doing more formal routine work, they will be expected to take up the standpoint of "an intelligent taxpayer bent on getting the best value for his money."

The Auditor-General :—In order that audit officers may do their work of criticising the Executive with sufficient independence, the Auditor-General has been given a statutory position by section 97 D (1) of the Act. He is to be appointed by the Secretary of State in Council, and is to hold office during His Majesty's pleasure. Before the Reforms, a similar arrangement was in existence; it is now formally recognized in the Act. It has been further provided that the Auditor-General will not be eligible for any other post in the Government of India. The object of this provision is to prevent him from expecting any favour from the Indian Government, so that his independence may not be affected.

The Public Accounts Committee :—Every year Committee of Public Accounts is formed "for the purpos

of dealing with the audit and appropriation accounts of the Governor-General in Council."[1] The Committee consists of not more than 12 members of whom not less than two-thirds are elected by the non-official members of the Assembly. The remaining members are nominated by the Governor-General. The Finance Member who is one of them, is ex-officio Chairman.[2] The Auditor-General is not a member, but attends by invitation. The main function of the Committee is "to satisfy itself that the money voted by the Assembly has been spent within the scope of the demand granted by the Assembly".[3] The Committee has to bring to the notice of the Assembly :—

(1) every re-appropriation from one grant to another grant ;

(2) every re-appropriation within a grant which is not made in accordance with such rules as may be prescribed by the Finance Department ; and

(3) all expenditure which the Finance Department has requested should be brought to the notice of the Assembly.[4]

It is in this way that the responsibility of the Executive to the Legislature in carrying out the provisions of the budget is enforced. Similar arrangements exist for the constitution and functions of Public Accounts Committees in the Provinces. The Provincial Finance Department is

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1. Cf. Rule 51 of the Indian Legislative Rules.

2. Wattal has pointed out the difficulty of this situation in the words of Sir Basil Blackett :—" The position of the Finance Member as *ex-officio* chairman of the Public Accounts Committee is not going to be a very easy one. He will be passing, in his capacity as a Member of the Council of the Governor-General, criticisms on the Governor-General in Council, which will be rather difficult, and I am not sure that as a permanent arrangement it will really work. The same is true of Provincial Public Accounts Committees. In England, the Chairman of the Public Accounts Committee is generally a member of the opposition.

3. Cf. Rule 52 of the Indian Legislat ive Rules.

4. Taken from Wattal, Ibid, p. 110.

to lay the Audit and Appropriation reports before the Public Accounts Committee, and to bring to its notice unauthorised expenditure or other financial irregularities.[1]

The responsibility of obtaining audit and appropriation reports from the various audit officers, and of forwarding them to the Governor-General in Council or to the Provincial Finance Department with his comments rests on the Auditor-General. In addition to this, he is required to forward these reports to the Secretary of State with his general and detailed comments. The object of these comments is to show "the general trend of audit development and the progress of financial control in India as a whole under the Reform Scheme."

The recommendations of the Public Accounts Committee on these reports are in due course considered by the Legislature, which in its turn issues orders or makes recommendations to the Government. The responsibility of carrying out these recommendations in regard to voted items rests on the Finance Department. The Audit Officer concerned and the Auditor-General are to be duly supplied with the report of the Public Accounts Committee, the recommendations of the Legislature thereon, and the action taken by the Executive on them, as well as the action taken in regard to non-voted items. In case the Audit Officer considers that the orders so passed are inadequate he is free to bring the matter again to the notice of the Committee and the Legislature in his next report.

Audit reports on English Accounts:—Under section 27 of the Act the India Office Auditor is required to submit his reports on the India Office accounts together with the accounts to Parliament every year. The same officer audits the accounts of the High Commissioner, and sends a copy of his report to India. The audit

1. Cf. Devolution Rule, 37 (1).

reports on the High Commissioner's accounts come before the Public Accounts Committees—Central or Provincial, as the case may be—along with the reports of audit officers in India. The audit reports on the India Office accounts are sent to India only for information; they do not come before the Public Accounts Committee and the Legislature. Nominally, those reports are submitted to the Secretary of State in Council to be laid before Parliament. In practice, this means that the audit reports on the greater portion of expenditure incurred in England out of Indian revenues receive no scrutiny either in England or in India.

Cash Balances.

In order to understand the mechanism relating to the cash balances of the Government of India, the following passage from the Report of the Chamberlain Commission on Indian Currency and Finance may be read with interest[1] :—

> "The first principle to be borne in mind in any consideration of the Indian finance and currency system is that the balances of the Government of India in India, and of the India Office in London, and the portions of the Gold Standard and Paper Currency Reserves located respectively in India and in London, all represent in the last analysis one single fund. The titles attached to the constituent portions of this fund indicate to some extent the nature of the needs and liabilities for which the fund as a whole is required to provide. The name attached to each portion indicates the primary function of that portion; but neither in theory nor in practice have the separate portions of the fund been entirely reserved for the objects indicated by their separate names."

With this explanation of the balances in view, let us discuss them in three parts—(1) Treasury Balances; (2) the Gold Standard Reserve; and (3) the Paper Currency Reserve.

1. Para 9 of the Report.

Treasury Balances.

For the current expenditure of the Government, a working balance both in India and in England is necessary. In India it is required for (1) the expenditure on revenue and capital account of the Imperial and Provincial Governments; (2) the expenditure of local boards and municipalities of which the Central Government is a banker; (3) the Government Savings Banks; and (4) miscellaneous funds and services such as funds in court[1]. The Indian balances for these purposes consist of[2] (a) revenue surpluses; (b) unexpended balances of loans; (c) cash balances of Provincial Governments including their famine funds, (d) deposits of savings banks and service funds; (e) balances of local bodies, etc.

A working balance is required in England because a considerable amount of expenditure is incurred in England by the Secretary of State and the High Commissioner on behalf of India. Ordinarily, funds are provided for this purpose by the sale of what are known as Council Bills by the Secretary of State, which are purchased by those who have to make payments in India, and which are ultimately cashed by the Government of India.

Till recently the treasury balances were kept mostly in the various Government treasuries all over the country. Only a small portion was kept with the Presidency Banks. The seasonal stringency in the money market was attributed to the locking up of Government funds in this manner. In order to remove this difficulty, it has now been provided that the Government balances will be deposited with the Imperial Bank wherever it has an office. The Government still maintains its treasuries in those places where the Imperial Bank has no branch. The former system by which the surplus funds of the

1. Cf. Chamberlain Commission, Report, para 10.

2. Cf. Wattal, Ibid, p. 196.

Government were kept in Reserve Treasuries at Bombay, Calcutta and Madras has also been abolished.

The Controller of Currency is responsible for the management of these balances. He is assisted by the Deputy Controllers of Currency at Calcutta, Bombay and Delhi. In Madras and Burma, the old system by which the Provincial Accountants-General did this work is still continued. In England, the Indian Treasury balance is kept with the Bank of England, and is managed by the Accountant-General of the India Office. He receives his orders from the Chairman of the Finance Committee of the India Office and from the Secretary of State.

The Chamberlain Commision considered the question of the size of the Indian balances and pointed out that in some cases they were unusually large.[1] It would obviously be better if Government can carry on its transactions with smaller balances. Though it is difficult to lay down a limit for the size of the balances, the considerations to be borne in mind in this connection are[2] :—

(1) It has been estimated that the average daily receipts of the Government amount to about a crore of rupees, and that the average disbursements amount to a little more than a crore of rupees.

(2) The receipts are not evenly distributed throughout the whole year with the consequence that the disbursements exceed the receipts on certain occasions. Normally, from January to April, the receipts are heavy; during May and June they are on a fairly good level; during the next five months they are much below the demands on the treasuries with the consequence that the

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1. 1922-23 Accounts:—

		India.	England.
		Rs.	Rs.
Opening balance	...	25,66,13,170	8,99,53,817
Closing balance	...	25,95,80,424	9,82,19,688

2. Cf. Wattal, Ibid, pp. 200-202.

balances go down and reach their lowest point in December. As compared with these variations in receipts, the expenditure is more or less even throughout the year. This leaves nearly all treasuries in deficit during certain months of the year. Besides, those places which are centres of construction of military, railway or other public works, require large balances, and are in deficit even during the periods of heavy revenue collections.

(3) There is a political danger in keeping a low balance. The Government is under the obligation to pay on demand huge sums by way of Postal Savings Banks deposits and Post Office Cash Certificates. The total of these liabilities exceed the ordinary balances of the Government, and if a heavy demand is made, as happened in the beginning of the War, the Government may find itself in difficulties.

Loans from Treasury Balances:—In connection with the question of the seasonal stringency in the money market in India, the desirability of giving out loans from the balances to the trading public is frequently discussed. Since 1921, the Government keeps its balances with the Imperial Bank of India, without interest. The Bank is free, under certain conditions, to use these balances to help the money market[1].

The Indian balance in England has, however, received a different treatment. Excepting a certain minimum

1. "The Governor-General in Council is entitled to issue instructions to the Bank in respect of any matter which in his opinion vitally affects his financial policy or the safety of the Government balances, and if the Controller of the Currency or such other officer of Government as may be nominated by the Governor-General in Council to be a Governor of the Central Board shall give notice in writing to the Managing Governors that he considers that any action proposed to be taken by the Bank will be detrimental to the Government as affecting the matters aforesaid, such action shall not be taken without the approval in writing of the Governor-General in Council." Cf. p. 31 of Paper Currency Department Report, 1920-21.

balance, it has been a practice since 1838 to lend these funds to certain approved borrowers. The loans are, of course, for short periods and yield a certain amount of interest.

The Gold Standard Reserve.

One of the features of the Indian Currency system is the Gold Exchange Standard. This means that for internal purposes, we have the silver rupee in circulation; the exchange value of the rupee in terms of gold is fixed, and the Government makes it a practice to enable the people to make foreign remittances in gold at this ratio, whenever necessary. In order to maintain the Exchange Standard, a Gold Standard Reserve Fund has been created out of the profits on the coinage of rupees. This is possible because the rupee is a token coin passing current at a value much above its intrinsic metallic value, and the Government, therefore, makes a certain amount of profit on each rupee coined.

This reserve is used in support of exchange when on account of adverse trade balance remittances have to be sent from India to England. On such occasions, the Government sells Reverse Councils, which are sterling drafts on London in lieu of rupees paid in India. The drafts are cashed by the Secretary of State from the Gold Standard Reserve. On the plea that the use of the reserve is in England, it is located in that country, though there is a strong feeling in favour of its location in India. A greater portion of it is invested in short term securities, which yield a small rate of interest on the whole.

This interest is added to the reserve itself, though diversions from this practice are made. In 1907, a sum of more than a million pounds belonging to the reserve was invested in Railways. In 1921 and 1922, the excess over £40 million in the reserve was used to

cancel created securities in Paper Currency Reserve. In 1923 and 1924, this excess has been added to the general revenues. This uncertain handling of the reserve is due to the fact that its management is at the discretion of the Executive, and is not governed by any statute.

The Paper Currency Reserve.

The Paper Currency Reserve is maintained to secure the convertibility of currency notes into coin on demand. Under the Paper Currency Act of 1923, currency notes can be issued to any amount, subject to the condition that the total amount issued should be covered by a reserve, at least half of which should be in precious metals, and the remaining may be in British or Indian Securities.

The Paper Currency Reserve should obviously be located in India, where it is required to cash notes, but in practice a portion is kept in London. Under the Act of 1923, the amount of gold coin and bullion in London is limited to Rs. 5/- crores. This means that the greater portion of the metallic reserve should be in India. Again, the amount of Indian securities is limited to Rs. 20 crores, which means that the greater portion of the securities reserve will consist of British paper and will, therefore, be located in London.[1]

The Indian branch of the reserve is distributed among (1) the head offices of the currency circles, *viz.* Bombay, Karachi, Lahore, Cawnpore, Madras, Calcutta, Rangoon ; (2) district treasuries; (3) sub-treasuries ; and

1. The ideal laid down in the act of 1923 has not yet been reached. The portion of the reserve invested in rupee securities contains a large amount of "created securities." These are Treasury Bills issued by the Government of India to the Currency Department during the War, and are obviously a weak element in the reserve. Provision for a gradual reduction of these holdings has been made.

(4) branches of the Imperial Bank of India. In the places mentioned in the last three items, the reserve is kept in what are known as "currency chests". These serve the double purpose of cashing notes as well as transferring treasury surpluses from one place to another as will be explained below.

The question of meeting the seasonal stringency in the money market by means of an expansion of the note issue was considered by the Babington-Smith Committee, and on their recommendation, it has been provided in the Act of 1923 that the Controller of Currency may issue, subject to certain conditions, currency notes, not exceeding Rs. 12 crores in amount against bills of exchange not maturing within 90 days from the date of such issue. Such notes have been issued through the Imperial Bank against *hundis*[1] for bonâfide trade purposes.

In the past the interest on the Paper Currency Reserve was credited to revenue. But under the Act of 1920, the interest is to be applied to the reduction of "created securities". The operation of this clause has, however, been suspended in 1923 and in 1924 by the Finance Acts, by which the interest is credited to revenue.

Movement of Funds and Resource Operations.

The Controller of Currency and the officers under him are responsible for the movement of funds and the resource operations of the Government of India. At the end of each month, an estimate of the receipts and payments in India for that month as well as for the two following months is made. This is known as the "Resource Forecast". From this the Finance Department judges whether the requirements of Government will be met from ordinary receipts or whether loans will be necessary and so on.

1. *Hundis* are internal bills of exchange.

The Deputy Controller of Currency is in charge of the transfer of Government funds from treasuries and sub-treasuries[1] to the Imperial Bank and vice versa. So long as the total balance to the credit of the Government is not overdrawn, the Bank is bound to give facilities for the transfer of funds from place to place and to meet the demands of Government.

On the basis of the actuals of past years, a "normal balance" to be kept at each treasury in the next financial year is determined beforehand sometime in January. By means of frequent reports from all treasuries, the Deputy Controller of Currency at once knows if the balance at a particular treasury exceeds the normal figure. In such a case arrangements are made to transfer the excess to a deficit treasury or to the local head office of the Imperial Bank.

In order to make the transfer of funds from one place to another in an economical manner the following methods are used :—

(1) As referred to above, at district treasuries and sub-treasuries, portions of the Paper Currency Reserve are kept in "currency chests". When in a particular treasury there is a surplus, it is deposited in the currency chest; at the same time a transfer of an equivalent amount is made from the currency balance to the treasury balance at the provincial headquarters. The effect is as if the treasury surplus was remitted in one direction, and a portion of the Paper Currency Reserve in another direction. When later in the year, the treasury in question is in want of funds, it draws from the currency chest and a corresponding transfer in the opposite direction is made at the provincial headquarters.

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1. Funds are not allowed to accumulate unnecessarily at the treasuries, but are transferred to the Imperial Bank.

(2) An exactly similar process takes place in connection with the branch of the Paper Currency Reserve, which is kept in London. When the Secretary of State finds it difficult to put himself in funds in the ordinary manner, he draws upon the Paper Currency Reserve in London, and a corresponding payment is made to the reserve in India. The opposite process is adopted when it is convenient to increase the reserve in London.

(3) The time of land revenue collection when the treasuries become surplus, is about the same as the time of the export season, when the exporters require cash in the districts to purchase the crops. They are naturally willing to receive at a small cost cash in the districts in return for a payment at provincial headquarters. The Government gives such facilities by means of "supply bills" or "telegraphic transfers". The traders get their funds in the districts with ease and little cost; the Government transfers its funds from the districts to the provincial headquarters with ease and advantage. This work is now done by the Imperial Bank where it has an office, at rates not exceeding those fixed by the Controller of Currency.

(4) Though the Government receives its revenue in rupees in India, it has to incur a large expenditure in sterling in England. Funds are remitted to London for this purpose by means of the sale of Council Bills and Telegraphic Transfers on India by the Secretary of State. This procedure is facilitated by the "normal"[1] excess of exports from India for which she has to receive payments from abroad. The Secretary of State sells Council Bills to those who have to make payments to India, and receives sterling in return. The bills are cashed in rupees by the Government of India, at Calcutta, Bombay,

1. The normality of the excess of exports is not real; see chapter on "English charges."

Karachi and Madras, and the money is ultimately received by those who had exported goods from India, and were entitled to payments from abroad. The effect from the point of view of the Government is that funds to this extent are transferred from India to England.

In cases of adverse trade balance, when there is a demand for remittance from India to England, the Government sells Reverse Councils in India for rupees. They are payable in sterling in England by the Secretary of State. This is generally done to support exchange.

As a general rule, Council Bills as well as Reverse Councils are cashed from Treasury Balances. Sometimes, the Paper Currency Reserve is drawn upon for this purpose. On rare occasions, when the demand for Reverse Bills is heavy, the Gold Standard Reserve is utilised. The effect of such transactions is usually a transfer of funds from India to England or *vice versa*; and whenever either of the reserves is used a corresponding adjustment in the opposite direction is made in India or England, as the case may be. It is easy to see that when Reverse Councils are cashed from either of the reserves, to that extent the Government will have recieved rupees or notes from the public in India, leading to a contraction of the circulating media.

CHAPTER IV.

INDIAN FINANCIAL STATISTICS.

The study of Finance is known to be a complex thing not within the easy grasp of the layman. Finance cannot be studied without statistics, and statistics are supposed to prove anything. In order that this difficulty or delusion may not exist, it is desirable that the Financial Figures of a country should be presented to the public in as simple and intelligible a form as possible. Those responsible for preparing the Financial Statistics of the Government of India have not kept this ordinary precept in view, with the consequence that the study of Indian Finance becomes a mysterious muddle. In spite of his admitted intelligence and abilities, Lord Curzon[1] was "considerably puzzled" in following Indian Financial Statistics and the main grounds of the complaint made by him in 1900, were not removed till recently.

There are two main causes which introduce difficulties is understanding the Financial Statistics of the Government of India :—(1) Changes in classification and methods of accounting ; (2) the Unit of account.

(1). *Changes in classification and methods of accounting.*

The first systematic organisation of the Finances of India was made in 1860. As one goes on reading one

1. Cf. Lord Curzon's speech in closing the Budget discussion in March 1900 :—"That delusive column that appeared to represent Loss by Exchange has vanished. The dreadful and bewildering symbol of Rx. has been politely bowed out of existence. I remember last year, when still a newcomer from England, and before I had become accustomed to the multiplicity of Indian financial symbols, being considerably puzzled at the occurrence in the same statement of no less than five different methods of computation, *viz* ; Rupees, Tens of Rupees, Pounds Sterling, Lacs and Crores. Now, I have never myself understood why finance, because it is complex, need also be made obscure."

Financial Statement after another published annually since 1860, one is at a loss to find a uniform basis of study on account of frequent changes in classification and methods of accounting, particularly during the years 1860 to 1886. The consequent complexity of accounts sometimes baffles investigation, sometimes throws the investigator on a wrong track.

Two expert bodies were faced with this difficulty but they did not solve it. The Select Committee of the House of Commons in 1871, reported as follows[1] :—" Your Committee have found that the evidence presented to them is, in some respects, wanting in precision, in consequence of the accounts in India not having been prepared in such a manner as to show the results which should be known to enable a judgment to be formed on important questions affecting the finances." The Committee asked for statements of accounts to be prepared on a uniform basis for their guidance, but I have not been able to find whether any such statements were submitted.

The Welby Commission on Indian Expenditure (1895–1900) met with the same difficulty. Mr. Stephen Jacob, Comptroller and Auditor-General to the Government of India said that it was not possible to make any fair comparison of the expenditure of the years before 1875, owing to a difference in the methods of keeping the acconnts.[2] Sir Henry Waterfield, Financial Secretary to the India Office, submitted a series of tables to the Commission, which began with the year 1875, and which had been recast in the form adopted in 1886.[3] The majority of the Commission took the year 1861 as the basis of comparison, only so far as the *total* sums of revenue and expenditure in that year were concerned. But they said that " changes which

1. Report, para 5.
2. Questions, 4199–4208.
3. Vol. II, app. 9, pp. 59–79.

have been made in the classification of expenditure do not enable us to analyse the progress of expenditure in its details beyond the year 1875."[1] The minority based their report entirely on figures beginning from 1875.[2]

Coming to more recent years, we do find some changes in classification or in the form in which the accounts are presented, but they do not involve any great difficulty for the purposes of a comparative study.

(2). *Unit of Accounts.*

The more serious cause of trouble, however, is the adoption of an unnatural unit of account. Though the English sovereign has been declared legal tender in India since 1899, in all monetary transactions the people of India think in rupees. The private income and expenditure of individuals is measured in rupees ; the Government of India receives its revenue in rupees, because taxes are paid in rupees and its expenditure in India is also incurred in rupees. In spite of this, the financial statistics of India are presented to the world in pounds sterling. The fact that a certain amount of expenditure is incurred in pounds sterling in England on behalf of the Government of India is not a sufficient reason by itself to explain the origin of the adoption of the pound sterling as the unit of Indian accounts. Perhaps the English officials who managed the finances of India found the pound sterling more convenient; or the fact that Indian Financial Statements were to be formally presented to Parliament might have led to this practice.

Two consequences arose from this :—(1) The detailed accounts in India were of course kept in rupees and even in published statements rupees had to be spoken of in some cases. This led to the use of two different systems of notation, the Indian and the English :—on the one hand we

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1. Para 95, Majority Report.
2. Para 41, Minority Report.

had *lakhs*[1] and *crores* of rupees, on the other we had *millions* of pounds. It is only after a long practice that one can follow without confusion important figures presented in two different units and two different notations, in the same statement.

(2) The other and more serious cansequence arose from the difficulty of converting rupees into pounds or vice versa, when the rupee sterling exchange was not steady. On account of the falling value of silver, the rupee-sterling exchange began to fall from the old parity of 2 shillings a rupee from 1873, and remained fluctuating till the mints were closed in 1893, and exchange was stabilised at the new parity of 1s. 4d. in 1898. Fluctuations opposite in character and greater in intensity began from 1917, the exchange rate having on the one hand risen by successive stages as high as 2s. 11d. in early 1920 and once again fallen to about 1s. 4d. within a year thereafter.

It would obviously introduce endless confusion in the accounts of the Government of India if they tried to adjust the value of their unit of account with such market fluctuations from time to time. They, therefore, adopt a fixed ratio between the rupee and the sterling for the purposes of their accounts, and the discrepancy arising out of the variation in the account rate and the market rate of exchange is adjusted in a separate item called "Exchange". When this variation is small, this item serves its purpose

1. Lakh means	...	...	1,00,000
Crore means	...	...	1,00,00,000
Million means	...	...	10,00,000

The confusion takes another form sometimes; *e.g.* cf. Financial Statistics of British India, 1922, page 20, where the number of coins struck in Indian mints is given in *millions* (623,451,000), and their value is given in *crores* of rupees (40,22,45,000).

Sometimes Indian gentlemen educated in England speak of *millions* of *rupees*.

fairly well, but when the variation becomes large it loses its value, and an element of unreality is introduced in the Financial Statistics of India. For example, the account rate was 2 s. a rupee from 1873 to 1898, whereas the market rate was much below this. Again, during 1917 to 1920, the account rate was 1s. 4d., whereas the market rate was rising by great strides. Since 1st April 1920, the account rate is once again 2 s. but the market rate has considerably fallen and is in the neighbourhood of 1 s. 4 d. In such cases, we have huge figures appearing against the item Loss or Gain by Exchange, which arises because the Public accounts are kept on a ratio which is widely different from the prevailing market ratio between the rupee and the sterling, and hence is very often fictitious.

Before going into the details of this confusion, another feature of Indian Finance arising from this cause may be mentioned. In times of fluctuating exchange, budget-making in India is reduced to speculation. The Finance Member, who presents his budget to the Legislature in March, does not know what the exchange rate will be during the course of the coming financial year beginning from 1st April, and his calculations and estimates frequently go wrong at the end of the year. At such times the Finance Member usually adopts what may be called the Budget rate of exchange in order to estimate the probable loss or gain by exchange with reference to the fixed account rate. If the average market rate during the year in question, fluctuates widely from the estimated Budget rate, the Finance Member may find at the end of the year that there is a large unexpected deficit or surplus, as the case may be. So long as the Government of India has to incur a large amount of expenditure in a foreign currency, in sterling, this uncertainty in financial calculations in times of fluctuating exchange will remain, even if the unit of account be changed from the pound sterling to the rupee as has been done since April 1920. But the

confusion and unreality of the accounts referred to above will be removed by the adoption of this natural unit of account. The extent of this confusion and unreality will be realised by a brief survey of the way in which the supposed loss or gain by exchange was treated on different occasions in the past.

Exchange Loss during 1875 to 1898.

With the fall in the value of silver which began in 1873, and the consequent fall in the exchange value of the rupee the Government of India required more rupees than before to pay for their sterling charges in England. The difference between the actual number of rupees paid by the Government in any particular year, and the number of rupees which would have been required if the exchange value of the rupee had remained at the conventional rate of 2 s. was considered to be the Loss by Exchange to the Government of India. At first, this so called Loss was not shown against each different item of expenditure, but it was lumped together in a separate item by itself, and the financial statistics of India continued to be presented in pound sterling which was supposed to represent ten rupees up to 1885. To illustrate, let us suppose that the military expenditure of India in 1885 was Rs. 10 crores in India and £ 5 million in England. Converted at the 2 s. rate, the military expenditure of India would be shown as £ 15 million, which nominally represented 15 crores of rupees. But if the exchange rate in 1885 was 1s. 6d., the number of rupees required to pay the sterling charge would be 6½ crores, and the total actual expenditure would amount to 16½ crores of rupees. The difference between the two—1½ crores of rupees would go to swell the item, Loss by Exchange, and the reader would be left with the impression that the military expenditure in that year was only 15 crores of rupees.

In order to remove this confusion the following method was adopted in the accounts of the Government of India

from 1886. Each item of revenue or expenditure was divided into four columns. The first column showed the rupee transactions in India in tens of rupees (for which the symbol Rx. was used). The second column showed the sterling transactions in England in pounds sterling. The third column was called exchange, and it showed the addition required to the sterling figures in order to convert them into tens of rupees. This addition was the difference between the rupee equivalent of the sterling at the average rate obtained for Council Bills, and at the conventional rate of 2 s. a rupee. The fourth column gave a total of the first three columns, and showed the total of rupee and sterling transactions in tens of rupees. It was thus intended to give the rupee and sterling transactions separately in tens of rupees and in sterling, and to show their combined result in tens of rupees. At the same time, it was easy to find the rupee equivalent of the sterling transactions by adding together the second and third columns.[1]

Though this method was adopted for the first time in 1886, the accounts of the previous ten years were recast on this model and published in an appendix to the financial statement for 1886. This system was continued till 1898 when the rupee was stabilised at 1s. 4d., and it was therefore no longer necessary to present the accounts in this complicated manner. For the years 1875 to 1898 we have the financial statistics of India on this uniform basis.

Gain or Loss by Exchange in recent years.

From 1899, the statistics were again given in pounds sterling which now denoted rupees 15. The uniformity of the accounts was again disturbed when in 1917, the fluctuations in exchange began. Compared with the fixed rate of 1s. 4d., the exchange value of the rupee was rising, and hence the consequences were quite the reverse of those that took place during 1875-98. Unlike this period,

1. *e.g.* Budget, 1898 :—

	India.	England.	Exchange.	Total.
Army :—	Rx. 18,083,800.	£. 4,469,300.	Rx. 2,502,800.	Rx. 25,055,900

however, when the characteristic of the exchange rate was a steady fall, in recent years the fluctuations have been greater in intensity in either direction. The rate after having risen as high as 2 s. 11 d. a rupee, has once again fallen to the old level of about 1 s. 4 d. in a single year.

Not anticipating the recent fall, the Indian authorities adopted the 2 s. rate as the new legal ratio between the rupee and the sterling, and the accounts are kept on this new basis, since 1st April, 1920. During 1917–1919, the Government of India realised a Gain by Exchange because the prevailing market rate was higher than the account rate (1 s. 4 d.). At the time of making the Budget Estimates for 1920–21, the market rate was much above 2 s., which was now adopted as the account rate, and hence a substantial Gain by Exchange was expected for 1920–21. Because of the sudden fall in the rupee thereafter, and the continuance of the 2 s. rate for accounts purposes, we have huge Losses by Exchange since 1920.

The way in which the Gains or Losses have been treated in the Accounts is so unsteady and artificial, that a study of the War Finance of India becomes a task of insuperable difficulty. Unlike the period 1875–98, there were other factors which introduced elements of confusion in recent years. Under ordinary circumstances, the Gain or Loss by Exchange occurs on the remittances between England and India, chiefly to finance the Secretary of State for his sterling expenditure on behalf of India. During recent years, however, partly on account of the war, and partly on account of the currency policy of the Government we had many other remittance transactions, of which a list is given below,[1] which either involved a gain or a loss to the state. As this gain or loss, which

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1. 1. Council Bills; 2. Reverse Councils; 3. Rupee coinage; 4. Postal and Money Order transactions; 5. Recoveries from H. M.'s Government; 6. Gold transactions; 7. Realisation of sterling securities in Paper Currency Reserve; 8. Cancellation of overbuying guarantee; 9. Transactions on behalf of other Governments; 10. Transfers from Paper Currency and Gold Standard Reserves; 11. Depreciation on revaluation of these Reserves; 12. Miscellaneous Transactions.

was supposed to be due to the same phenomenon, namely, a rise or a fall in the exchange value of the rupee, went into large sums amounting to several crores of rupees, the question of treating the net gain or net loss every year became a matter of great importance.

In 1917 and 1918, there was a Net Gain by Exchange, on all such remittance transactions and this was credited to revenue in a lump sum. The Budget Estimates of 1919 took credit for a Net Gain of 160 lakhs of rupees ; in the Revised Estimates, however, the system of appropriating the Gain was changed. Out of the Net Gain of 11,81 lakhs of rupees (Revised Estimates, 1919) , it was decided to credit the Capital Account with 731 lakhs and the balance 450 lakhs was kept apart in a suspense head for wiping out the deficiency in the Paper Currency Reserve due to revaluation of the securities and gold in that reserve at the new 2s. rate. The Final Accounts of 1919 are given in rupees converted at the rate of 10 rupees to a £., which makes it difficult to compare the figures with those given for the Budget and Revised Estimates, in which the old rate of 15 rupees to a £. was employed. This change explains the existence of an item in the Accounts of 1919 called— " Adjustment on account of the difference in exchange due to the adoption of 2s. basis for conversion—10,89 lakhs of rupees." This is different from the Gain by Exchange referred to above which was appopriated to Capital Account and suspense head as explained above, the final figure in the suspense head being 523 lakhs of rupees.

The Budget Estimates for 1920 were presented in £. sterling at the rate of 15 rupees to a £., and the Net Gain by Exchange was expected to be as much as 30,85 lakhs of rupees, out of which 600 lakhs were to be credited to revenue ; 12,85 to Capital Account ; and 12,00 to suspense head. From 1st April 1920, however, accounts are kept in *rupees* on the 2s. basis. The rate soon fell below this, and we have, therefore, a Loss by Exchange counted on the 2s.

basis. Instead of the budgeted gain of 30 crores of rupees in 1920, we have an estimated loss of an equal amount in the Revised Estimates.

From this time a new procedure was adopted for adjustment of Exchange Gain or Loss. This was to be recorded in the first instance under a suspense head. The portion attributable to Revenue and Capital accounts was to be transferred to them. The balance was to be written off to revenue or kept in suspense head according to the financial condition of the year in question. The portion which was to be debited to the Revenue Account was to be distributed under each separate item of expenditure as might be expected. It was divided into three parts :—(1) that due to Commercial Services which was mixed up with the expenditure under Railways, Irrigation, etc., (2) that due to Provincial Governments which was transferred to the Provincial accounts ; (3) the balance was shown in a lump figure against "Exchange." This last item amounted to 323 lakhs in the Accounts of 1920.

The same method was followed in connection with the Budget and Revised Estimates of 1921, and the Budget Estimates of 1922 ; the figures against the expenditure item "Exchange" being 328 lakhs (Budget 1921) ; 850 lakhs (Revised 1921) ; and 996 lakhs (Budget 1922).

It may be noted at this stage that like the Select Committee of the House of Commons of 1871, and the Welby Commission of 1895-1900, the Inchcape Committee on Indian Retrenchment reporting as recently as March 1923, found the existing method of compiling the accounts confusing and suggested a new procedure in the following words :— "We consider that the best course would be to show all English expenditure in sterling both in the estimates and in the accounts. The rupee equivalents should be shown in the parallel columns and the sterling payments should be converted in the budget estimate at the assumed rate of exchange and in the accounts prepared at the end of

the year at the actual or average rate prevailing during the year. If this course were followed the separate entry under the exchange head would disappear from future estimates and accounts and the estimated and actual expenditure in rupees would be shown in both."

Though this recommendation has not been fully adopted, since March 1923, the natural system of distributing the Loss or Gain by Exchange relating to the revenue account, over the individual heads of revenue and expenditure concerned, both commercial and non-commercial, has been introduced. The former method of keeping a suspense head for Exchange on all remittance transactions is retained. In connection with the Budget Estimates for 1923, we have as usual, the Accounts and the Revised Estimates of 1921 and 1922 respectively, and these are also recast on the new system. We have now figures in four columns against each head of revenue or expenditure :—(1) showing rupee transactions in rupees in India; (2) showing sterling transactions in England in rupees converted at the rate of 10 rupees to a £., (3) showing in rupees the adjustment due to the variation in the actual exchange rate compared with the account rate; and (4) showing in rupees the total of the first three columns. This system is similar to that adopted in 1886, with this difference that whereas an artificial unit Rx. (meaning 10 rupees) was adopted in that year, now we have the figures in the natural unit in ordinary rupees. The rate of converting sterling into rupees namely 10 rupees to a £. which is quite fictitious in view of the prevailing market rate, is, however, retained.

Suggested Remedies.

This brief survey is enough to show the immense difficulties in making a comparative and historical study of Indian Finance since 1860. The heroic remedy of recasting the financial figures of all these years on a uniform basis

and in rupees is open only to the Finance Department of the Government of India. Though somewhat less satisfactory than this, there is another remedy, which it is within our power to attempt, and which eminently serves the purposes of study referred to above. It is to divide Indian Financial Statistics into several periods, in such a way that each period may have uniform and comparable figures and may be marked by certain common features. Accordingly, the following division seems to be the most natural one :—

First period ...	1861–1874	Unit £. (ten rupees)
Second period ...	1875–1898	Unit Rx. (ten rupees)
Third period ...	1899–1913	Unit £. (fifteen rupees)
Fourth period ...	1914–1920	Unit £. upto 1918 (15 Rs.) Unit Rupee in 1919 & 1920.
Fifth period ...	1921–	Unit Rupee.

As already explained, in 1886, a new method of presenting Indian financial figures was adopted, and the corresponding figures from 1875 were recast on that basis. This system remained in vogue up to 1898 when the rupee was stabilised at 1s. 4d. The period 1875–1898 for which we have uniform figures in this way, and which is marked by the falling value of the rupee, thus clearly stands by itself.

Complaints on the part of important committees about the figures before 1875 have been already referred to. The want of uniformity in the accounts in the years before 1875, is, however, removed by two tables printed along with the Financial Statement for 1875, in which the gross and net figures for the years 1861-1874 are given on one common basis. Though there is no outstanding feature common to this period, it was during these years that our financial machinery was being organised. Figures before 1861, and particularly those of 1860, which were greatly affected by the Mutiny, must be kept separate from this period, though for the sake of comparison they may be given in certain more important cases.

From 1899 to 1917 the figures are not difficult to follow; there are no great changes in classification, and the unit, though it is the pound sterling, does not fluctuate greatly from the fixed ratio of 1 to 15. As in all countries, the war introduces an important landmark in our financial history, and it is better, therefore, to stop at 1913, and treat the years from 1914 separately. This explains the reasons for taking the years 1899–1913 as making our third period. The common feature during these years was that, but for the great famines in the early years of this period, these were years of surpluses and remission of taxation; besides, it was during this period that the chief feature of the Indian currency mechanism, the Gold Exchange Standard was developed.

Though the War came to an end in 1918, its effects on Indian Finance are more marked in the years that follow. The year when the deficits due to the War come to an end should properly speaking be the closing year of the period beginning with 1914. However much we may desire to do so, we have to stop at 1920 because of the fact that a new landmark begins in Indian Finance, as in Indian politics, from 1921. With the inauguration of the Reforms in 1921, we have got what is known as Provincial Autonomy, and the financial transactions of the Provinces are now completely separated from those of the Central Government. Before 1921, though the Provinces enjoyed a certain measure of independence in their financial administration, the Budgets and Accounts of the Government of India, showed the financial condition of British India as a whole. Since 1921 the Central finances deal only with those functions which are left to the Central Government. In many cases, therefore, it is not possible to compare the financial figures of the years beginning from 1921, with those of the preceding years, unless we take note of the Budgets and Accounts of each of the Provincial Governments. This explains the reasons why we

prefer to take the years 1914-1920 as our fourth period.

Unfortunately for us the figures in this period are not on a uniform basis, and because of the fluctuating value of the rupee since 1917, they present great difficulties. The figures are given in £. sterling up to March 1920, when the Budget Estimates for 1920-1921 were presented. From 1st April 1920, the rupee has been adopted as the unit of accounts. The Final Accounts for 1919 and 1920 are available in rupees, whereas those for 1914–1918 are in £. sterling, which is supposed to be equal to rupees 15, though during 1917 and 1918, the £. fetched a smaller number of rupees. To avoid this difficulty, it would be better to convert the figures for the period 1914–1918 into rupees at the rate adopted in the accounts. Though this will enable us to have a clear and comparative idea of Indian Finance during the War period, the unreality introduced into the figures by the unsteady and artificial treatment of Gain or Loss by Exchange in those years will remain as explained above. This cannot be removed unless the gain or loss for each item of revenue and expenditure were available, which is not the case.

Though a similar confusion prevailed in the Budgets of 1921 and 1922, along with the Budget for 1923, we have the figures from 1921 given in rupees, with the exchange gain or loss shown separately for each item. Besides, there is a new classification due to the Reforms, as explained above. Thus the fifth period may be said to begin from 1921. Evidently the closing date for this period is yet to come.

If we follow the method explained above, we shall have the Financial Statistics of India arranged in different convenient periods, each period having uniform and comparable figures within itself. But the figures of one period will not be comparable with those of another, because of the differences in the unit and in the system of classification

in different periods. Though it is not possible to do away with these difficulties altogether, the figures will be comparable in most cases, if we present them in all the periods in the same unit, say, by converting the sterling or Rx. figures into rupee figures. In making this conversion the fluctuations in the rupee-sterling exchange will have to be borne in mind.

The tables given in the appendix to this volume are *specially* prepared on the lines explained above. As a rule, the figures for each item of revenue or expenditure are given in rupees in four or five periods. In order to have a complete grasp of the growth in revenue, expenditure, debt, etc., special graphs have been prepared illustrating the main tendencies from 1861 to 1924.

CHAPTER V.

THE POSITION IN 1860.

The Importance of this Chapter.

The year 1860 is the most important landmark in the study of Financial Developments in Modern India. The Finance Department of the Government of India in its modern form was first organised in that year by James Wilson, the first of Indian Finance Members. The effects of the Mutiny are clearly seen in the finances of this year, when for the first time efforts were made to restore order out of the financial chaos from which the country was then suffering. On account of these reasons, we have thought it proper to give a brief but separate treatment to this the starting year in the subject of our study. This survey of the financial position in 1860 will be a fitting introduction to the subject of this volume, the general plan of which is a separate discussion of the main items of revenue and expenditure from this year. Though this chapter has little direct relation with those preceding, the the propriety of including it in the Introductory Part will thus be obvious.

Indian Finance before 1860.

"The normal state of Indian Finance may be said to be deficiency of income and addition to debt"[1] such was the verdict of James Wilson, when he undertook the first systematic organisation of the Finances of the Government of India in 1860.

The causes of this state of affairs were mainly three, (1) expenditure on the frequent wars of the East India Company in and out of India, (2) the steady increase in the expenditure in England charged to Indian revenues, known as "Home Charges" and (3) the Mutiny. In the chapters on English Charges and Public Debt, the effects

1. F. S. 1860. P.P. 296 of 1860, H.L.P. 79.

of all these causes will be explained at some length. It is sufficient here to point out that the first two causes combined to produce frequent deficits for many years before the Mutiny, which resulted in a debt of 49 m. £.,[1] in 1856, with an annual charge of more than 2 m. £. This burden was doubled by the Mutiny, the debt in 1861 being 96 m. £ with an annual charge of more than 4 m. £. The great injustice involved in throwing these burdens on India will also be pointed out in another connection; we are here concerned with the way in which this serious situation was met by the Government of India.

In surveying the Financial History of the years preceding the Mutiny, Wilson found that from 1814 to 1860 there was a surplus in 13 years amounting to 9 m. £ and a deficit in the remaining 33 years amounting to 72 m. £, that there was a deficit of more than 9 m. £. in 1859 and that there would be a further deficit of 6·5 m. £ in 1860.

Wilson's efforts.

The credit of making a great effort to bring order out of this chaos belongs to Wilson. Without in any way trying to minimise his difficulties, we shall see that fresh from his English surroundings, he gave a greater importance to theory than to the actual conditions of India, and that he disregarded the advice of men who had the greatest experience of Indian affairs. Though the details of the financial organisation of India owe a great deal to Wilson, on account of these causes, as we shall see later, his financial measures were on the whole not successful.

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1. The figures of debt given by Mr. Wilson are larger than this. There is a great disparity in the early accounts regarding the amount of the debt. For example, the statistical abstract gives the debt in 1856 at 57 m.£. It is difficult to account for this discrepancy. The later statistical abstracts are in agreement with the Government of India publications. I have adopted the figures from the Financial Statistics, Calcutta, 1871. These are consistent with the later figures.

Within two months of his arrival in India,[1] he had satisfied himself as to the vast resources of the country and as to "the unparalleled prosperity of every class of the community" and had come to the conclusion that India was the lightest taxed country in the world, the average burden of taxation being 1s. 4 d. or 10 as. per head, because Land Revenue could not be considered a tax, though including Land Revenue the burden was about 5 s. per head. He did not estimate what percentage this taxation bore to the average income of the Indian farmer.

In the first place, he recognised the duty of reducing all expenditure to the lowest point consistent with security and good government and of making all those administrative reforms which were so essential in order to secure economy. But it was suggested that there was a point below which reductions could not be carried in the interests of the country and that therefore recourse was to be had to some new sources of taxation "as well to meet present deficiency, as to place our finances in a more permanently secure position for the future."[2]

Let us first consider how the question of reducing the expenditure was treated. With the growing needs of a progressive community it is difficult to introduce economy in civil expenditure. On account of this consideration, Mr. Wilson expected an increase rather than a decrease in civil expenditure. At the same time we may note two large items, one of which was permanent and the other was increasing. The additional debt charges which had been recently imposed upon India could not be reduced; and the increasing charge due to the policy of guaranteeing interest on Railway Capital became the nightmare of successive Finance Ministers as we shall see later.

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1. F. S. 1860.

2. Ibid.

Military Expenditure.

The only real reduction in expenditure that was possible was in the Military Charges. It is true that some reduction compared with the huge figures of the Mutiny years was made. But the resolution was arrived at that it was not safe to reduce the Military Charges to the Pre-Mutiny level. In their confidential letter of 9 March 1860, to the Governments of Bombay and Madras, the Government of India said[1]:—"But we regard it as a matter already determined, that whatever reduction we may be able to effect in the aggregate numerical strength of the army in India from that which now exists, and however near we may be able to approach the strength which was borne before 1857, a very much larger portion of the army must be composed of Europeans, and consequently a considerable permanent increase of cost must be incurred." In defending their policy for the satisfaction of the Secretary of State, the Government of India wrote on 17 April 1860[2] :—"In the first place, all were agreed that whatever other changes were adopted, the Indian army must for the future be mainly European, and not native; and we found, upon the best authority, and after the most careful calculation that the cost of each European soldier is at the least equal to that of four natives, and some calculations go even further, and show that the proportion is nearer five to one than four to one. Whatever reductions in numbers, therefore, which it would be possible to make, we could not but arrive at the conclusion, after consulting the highest Military authorities, that it would be impossible to reduce the military expenditure of India to a sum which shall not very greatly exceed that which was required before the mutinies."

It was because a costly European force was in this way to keep India in subjection that Mr. Wilson could not

1. Ibid. p. 107.
2. Ibid. p. 149.

reduce his military estimates for 1860 by more than £1·7 m. and had to provide for a deficit of £6·5 m. by improving the revenues of the state from "sources which can be better relied upon, and which will be capable of expansion or contraction according to the exigencies of the public service.[1]."

Before we proceed to discuss the details of the new measures introduced by Wilson we shall pause to consider the deliberate warning and advice which was placed on record by the Governors of Madras and Bombay. In his minute of 10-6-1859, Sir Charles Trevelyan (Madras) expressed this opinion:—"Moreover, I am convinced from a long and large experience of Indian affairs, including a close observation of what has taken place since the commencement of the great catastrophe in Upper India, that the present financial exigency might be overcome in two or three years, by reduction of expenditure combined with various measures of good administration. Instead, therefore, of exhausting our ingenuity in devising new taxes and raising new loans, I recommend that we apply ourselves in serious sober earnest to reducing expenditure, many large items of which are capable of being immediately acted upon, and to rendering the large balances in the treasuries more available.[2]."

Being asked by the Supreme Government for a fuller expression of his views as laid down in the above passage, Sir Charles gave a detailed exposition of the same in his minute of 11-7-1859.[3]. He began by pointing out how in the past on two occasions,[4] financial embarrassment caused by wars was met without additional taxation. On the present occasion, circumstances were more favourable for the restoration of the finances at least so far as military

1. Ibid. p. 108.
2. Ibid. p. 8.
3. Ibid. p. 66.
4. Pindhari and Nepal Wars and the First Burmese War.

expenditure was concerned, because the independent native armies that existed on those occasions had ceased to exist. Various details for the reorganisation of the military system were clearly pointed out.

In order to show the immediate effect of good administration in diminishing the expenditure and increasing the revenue, he gave instances of gross mismanagement in the Public Works Department. Moreover, there was not even an annual revision of the public establishments, similar to that which takes place in England, in connection with the estimates; the consequence was that expenditure often continued long after the circumstances which originally occasioned it had ceased. He also suggested remedies for rendering the unusually large balances in the treasury more available and for reforming the currency.

In his minute of 1-12-1859 Sir Charles again gave expression to similar ideas. He was however not alone in holding these opinions. Lord Elphinstone, the Governor of Bombay, who had perhaps a greater experience of Indian affairs than Sir Charles, expressed almost the same opinion in reviewing the Financial Statement of Mr. Wilson. In his minute of 19 April 1860, after having given a detailed exposition of his views on Mr. Wilson's financial policy he summarised them in these words[1]:— "I have now gone, I fear, at too great length into the reasons which induced me to think that our income may be made to meet our expenditure, without having recourse either to additional loans or new taxes. I may perhaps have been too sanguine in supposing it possible to bring the expense of the native troops and police, who now occupy the place of the old Bengal native army, within the limits of the cost of that army, though I find it difficult to believe that this might not easily be accomplished. I may not have left a sufficient margin for the increase of civil establishments, or for the extension of public works, but at all

1. Ibid. p. 191.

events I venture to think that I have shown that Mr. Wilson and the Government of India have taken too unfavourable a view of our financial prospects, and that if anything beyond judicious retrenchment and economy is required to restore them to a most prosperous condition, measures much less extensive, and probably much less obnoxious to the people of this country, will be found amply sufficient."

Wilson's Measures.

But the conclusions and policy of Mr. Wilson were different, as we have seen above. He announced his financial measures to the Legislative Council, at Calcutta, on 18th February 1860.[1] Firstly, important changes were made in the Tariff. Here we are confronted with a very anomalous situation. In the crisis in which the finances were, any measure which would reduce the revenue could hardly be justified. However defective the tariff was, this was not the time to try to improve it by giving up any revenue. The General Customs duty which had been raised from 5 to 20 per cent. in 1859, was reduced to 10 per cent. The duty on yarn which was left at 5 per cent. in 1859 was also brought to the common level of 10 per cent. Among the articles thus favoured were some which were largely consumed by Europeans in India.[2] Export duties on several articles were removed. Among these were, wool, hemp, hides, jute and flax, because these articles constituted the raw materials of "our manufacturing industry at Home[3]". Among these was also tea, because the cultivation of tea required encouragement, and was a means of attracting European capital and European settlers.[4] These changes involved a loss of £82,000. Though small, this

1. Cf. remarks on the form of Wilson's Financial Statement on page 3.

2. Cf. Trevelyan, Ibid. p. 112.

3. Cf. Wilson, F. S. 1860, Ibid. pp. 86 and 88.

4. Cf. Wilson, Ibid. p. 86.

loss of revenue could not be justified at this time, when we remember the strenuous efforts, that were necessary to restore equilibrium in the finances. There is some truth in the accusation of Sir Charles Trevelyan that these arrangements were made with a view to European interests, to secure popularity " with the ruling class ", without regard to the interests of the "tens of millions of natives upon whom three new taxes would be imposed without any such compensation."[1]

Against this loss of revenue there was some gain on account of the increase in the duty on yarn, and on account of a revision in the valuations of articles of import. Some gain was expected from an increase in the duty on tobacco, which was 20 per cent. in 1859. It was now to be 8 as. a seer on unmanufactured and 1 Re a seer on manufactured tobacco or nearly 100 per cent. These rates were soon found to be too high, and had to be reduced to 20 per cent. in 1862 and to 10 per cent. in 1864. But the greatest gain was to be derived by an export duty of Rs. 2 per maund on Saltpetre. As pointed out in another chapter, this was a most ruinous measure, ending in the practical extinction of the Indian trade in this article in a few years.

Secondly, a License duty on Trades and Professions was proposed. This would have affected a large number of petty artisans, traders and shopkeepers. This measure created great opposition, and though the bill regarding it was passed, it was not put into operation.

Thirdly, there was introduced an Income Tax for a period of five years. Incomes as low as Rs. 200 a year were taxed. The utter failure of this tax because of its novelty and the great oppression that it caused will be explained in another chapter.

Moreover, the efforts of Wilson were like groping in the dark. He had to confess that there were absolutely

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1. Ibid. p. 112.

no data upon which he could make any reliable calculation of the result of his new taxes. On the other hand, the results which Sir Charles expected from his policy of the reduction of military expenditure were more definite. "This reduction can", he wrote, "and ought to be carried, by the end of next year, or soon after, to the full extent required to equalise income and expenditure; and, considering the increased security consequent upon the diminution of the military force, the large proportion of the youth of the country who would be transferred from unproductive to productive labour by that diminution, and the freedom we should have, in consquence of the abandonment of the three tax ordinances, for giving our principal attention to administrative improvements, we might safely rely upon the rapid growth of a balance in our favour, owing to the increased yield of the existing taxes." And Sir Charles nobly added—"In this good work Madras is prepared to take her full share, and we undertake to realise, by reduction of expenditure, more than the most sanguine estimate that can be formed of the net revenue derivable from the three proposed taxes in this Presidency."[1] We have already referred to a similar opinion by Lord Elphinstone.

But this was not to be. Wilson had his own way, and his proposals were carried. As was natural, they were not effective. The Income Tax proved a failure; the Licence Tax was dropped; the tobacco duty had to be soon lowered; the duty on Saltpetre killed the Indian trade in that article; and the rest of the changes were supposed to favour English interests. Mr. Samuel Laing found in April 1861 that the expectations of his predecessor had not

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1. Ibid. pp. 119 & 120. It was the publication of his minutes containing these views that led to the recall of Sir Charles Trevelyan from his position as Governor of Madras. However, his large experience of Indian affairs and his intimate knowledge of the British Treasury System made him indispensable and he was appointed Finance Member in 1863.

been fulfilled. The new taxes had yielded only a small part of the expected revenue; reductions had not been effected; the deficit had increased and was met chiefly by a reduction of £5 m. in the cash balances.[1]

Equilibrium restored.

Mr. Laing was wise enough to have recourse to the policy of reducing expenditure. He had to meet a deficit of 5.8 m.£, 3.5 m.£ of which was provided for by reduction, chiefly military, and the rest by an improvement in the revenue. To improve the revenue however he increased the Salt duties, though he gave up some revenue by reducing the duty on cotton twist and yarn from 10 to 5 per cent, because of its supposed protective character. At the end of the year 1861, he found that though the small surplus for which he had budgeted was not realised, the estimates were very nearly correct, and the finances seemed to be in a state of equilibrium. This was chiefly due to the fact that he had reduced expenditure by 5 m.£ instead of by 3.5 m.£ as budgeted. It was this circumstance which enabled him in his estimates for 1862 to show a surplus on the existing basis of taxation. He siezed this opportunity to carry out his pet scheme of reducing the Cotton duties still further. He also restored the tobacco duty to its old level and raised the Income Tax minimum to Rs. 500. After a long series of years the actual figures for 1862 showed a small surplus.

But unfortunately this equilibrium was short-lived. Deficits soon reappear. The debt increases. The sources of revenue show a steady increase; but the items of expenditure go beyond control. In the following pages we shall try to study each principal head of revenue and expenditure and trace the Financial Developments in the country from this period up to recent times.

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1. F. S. 1861.

PART II.—HEADS OF EXPENDITURE.

CHAPTER VI.

DEFENCE.

The growth of the total net expenditure on Defence will be evident from the following figures.—

			Crores of Rs.
Average first period	...	...	16·3
„ second „	...	...	21·4
„ third „	...	...	37·9
„ fourth „	...	...	53·7
1921 ...	...	...	69·9
1922 ...	...	...	65·3
1923 (R. E.)	...	...	59·7
1924 (B. E.)	...	...	60·3

In order to appreciate the causes of this extraordinary growth of expenditure on Defence, we need to examine it under the following heads:—

(1) The strength and organisation of the Army.

(2) Subordination to the War Office.

(3) Employment of Indian Troops out of India.

(4) Forward Policy on the North-West Frontier.

(5) Military Works.

(6) Marine Services.

(7) The Royal Air Force.

(i) *The Strength and Organisation of the Army.*

The strength of the Indian Army in certain selected years is given below[1] :—

Year.		British Troops.	Indian Troops.	Remarks.
1856	...	39,500	311,038	Pre-mutiny.
1864	...	65,000	140,000	After mutiny.
1878	...	65,000	135,000	Second Afghan War.
1887	...	73,602	153,092	Increase in 1885 and 1886.
1903	...	74,170	157,941	......
(a)1914	...	80,090	156,650	Pre-War.
(a)1922	...	77,751	170,557	After-War.

(a) Excluding civilians and followers who numbered 64,762 in 1914 and 61,585 in 1922.

Ratio between British and Indian Troops :—It is evident that the ratio between British and Indian troops which was about 1 to 5 before the Mutiny was reduced to 1 to 2 in subsequent years, in accordance with the recommendations of the Peel Commission of 1859. The same ratio prevails till to-day, and though the recommendation of the Inchcape Committee will, if given effect to, reduce the strength of both the British and Indian troops to a certain extent, no change is contemplated in the ratio between the two.

It is notorious that the cost of the British soldier and officer is immensely greater than that of his Indian comrade. Without going into the detailed history of the pay and allowances and other items of expenditure of either the British or the Indian soldier and officer, the following comparison of their annual cost will bear out the above remark. The cost of a British soldier was more than three times that of an Indian soldier in 1913; in 1922 it was four times as much. The cost of an English officer was in 1913 and is also now nearly six times that of an Indian

1. The figures are taken from Imperial Gazetteer, vol. IV, and from the report of the Inchcape Committee, 1923.

officer. Further it is strange to find that the cost of British officers in British regiments is substantially less than that of British officers of Indian regiments. Looking at the figures from another point of view, it happens that the cost of an ordinary British soldier approximates to that of an Indian officer.

A departure has been recently made in the racial arrangement of the fighting forces of India. Hitherto there has been a certain element of British ranks in Indian units. Recently Indian combatants have been introduced into British units, in some cases. But unless a whole-hearted policy of Indianisation is put into force, the military expenditure of India is not likely to be reduced to reasonable limits.

It is beyond the scope of this work to discuss the technical aspects of the organisation and equipment of the Indian Army. Some of the general aspects are discussed in the succeeding section. From the financial point of view, it is enough to note that "the underlying principle of the present organisation appears to be that the Army should be in a continual state of preparedness for instant operations in the event of war or unrest."[1]

Along with this the interpretation put by the Army Department (in their recent publication "The Army in India") on a resolution[2] of the Assembly, passed in March 1921, is of interest. Whereas the Assembly insisted that

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1. Inchcape Committee, Report, page 13.

2. "That the purpose of the Army in India must be held to be the defence of India against external aggression and the maintenance of internal peace and tranquillity; that to the extent that it is necessary for India to maintain an Army for these purposes, its organisation, equipment and administration should be thoroughly up-to-date and with due regard to Indian conditions in accordance with the present-day standards of efficiency in the British Army, so that when the Army in India has to co-operate with the British Army on any occasion, there may be no dissimilarities of organisation, etc., which would render such co-operation difficult."

the main purpose of the Army should be the defence of India, the Army Department reads in the resolution the idea that it should be as efficient (meaning well-equipped) as those of western countries. Whereas the Assembly wants the Indian Army to be generally able to co-operate with the British Army in future, the Army Department believes that it has accepted the principle of "India's *liability* to co-operate on future occasions with the British Army."

(2) Subordination to the War Office.

This question may be discussed under the following sub-heads :—

(*a*) Control of Policy and Expenditure.
(*b*) Effective and non-effective payments to the War Office.
(*c*) Rates of pay.
(*d*) Transport charges.
(*e*) Other items.

(a) Control of Policy and Expenditure.[1]

The Military Budget of the Government of India is not subject to the vote of the Indian Legislature even under the Act of 1919. In the pre-reform days, with the official majority in the Imperial Legislative Council, the protests of the representatives of the people against the increasing military expenditure were not listened to. The disposal of the huge sums spent on Defence Services, has thus been left entirely in the hands of the Executive.

But the Indian Executive or the Government of India themselves have not been masters in their own house,[2] in

1. Cf. on this subject generally "Note on Indian Military Expenditure" by Sir Purshottamdas Thakordas, member of the Inchcape Committee on Retrenchment, 1923.

2. "The existing control of the Government of India on India's Military Policy and consequently on the growth of military expenditure would appear to be nominal in essential matters. The papers submitted to the Committee lead unmistakably to the conclusion that the Government of India are not masters in their own house, in respect of Indian Military Policy." Sir Purshottamdas, op. cit. para 10.

the matter of Indian Military Policy, which is generally controlled by the War Office in England, through the Secretary of State for India. The frank recommendations of the Esher Committee are directed towards making this control systematic and thorough. Apart from other things, the result of this system has naturally been needlessly expensive to India in as much as on the one hand the War Office looks upon Indian questions from the Imperial point of view, and on the other is not in close touch either with India's requirements or her financial condition. The above remarks are borne out by facts recorded in the following sections.

The recommendations of Sir Purshottamdas Thakordas on this point may be quoted with advantage :—

"(1) in all matters regarding Indian Military Policy and Administration, the Government of India and the Indian Legislature be given the deciding voice;

"(2) The Military Budget be made subject to the vote of the Legislative Assembly, pending which change expenditure on the Military Services over a standard figure (say fifty crores of rupees for the present) be made so votable."

(b) *Effective and Non-effective Payments to the War Office.*

Effective Payments:—The East India Company was required to pay for the cost of recruiting and maintaining depôts for training recruits for service in India. In 1860, the existence of a separate European force for the local service of Her Majesty in India was done away with; and the transfer of this force to the General British Army was authorised in 1861. This is known as the Army Amalgamation scheme, by which the detailed organisation and equipment of the Indian Army, went under the control of the War Office in England.[1] Financially, this meant that India had to pay to the War Office for the cost of recruiting and training British soldiers for her, and that India had to

1. Cf. W. O. II. p. 287.

pay to these soldiers the same rates of pay, allowances, pensions, etc., which prevailed in the English Army from time to time.[1]

This question of the payment to the War Office for supplying British soldiers to India has always involved an acute controversy, to settle which various committees and arbitrators have been appointed from time to time. As the controversy has not yet come to an end, a brief review of it from early times is of interest.

From 1861 to 1869, a capitation rate of 10 £. a year on every member of the British establishment in India was paid, as recommended by a Committee in 1860. In January 1869, the War Office proposed to adjust their claims on the principle of actual charges and a committee (with Mr. Seccombe as chairman) was appointed to consider the same. They fixed the following rates[2] :—

FOR RECRUITS.

	£.	s.	d.	
Cavalry	136	13	11	
Infantry	63	8	5	
Royal Horse Artillery ...	78	14	8	with an addition of £ 13-11-0 if the recruit shall have passed through the riding house establishment.
Royal Artillery, Mounted ...	59	2	10	
,, ,, dismounted.	59	9	3	

1. Cf. "A few years after the abolition of the East India Company, what is known as the army amalgamation scheme was carried out in direct opposition to the advice of the most experienced Indian statesmen. India was thus, as it were, bound hand and foot to our own costly system of army administration, without any regard apparently being had to the fact that various schemes of military organisation, which may be perfectly suited to a country so wealthy as England, may be altogether unsuited to a country so poor as India." Fawcett, pp. 66-67.

2. Cf. W. O. II. p. 291.

These rates were to be adopted for 1870 and 1871, but were to be reconsidered as great changes were about to be made in the constitution of the British Army. The India Office members protested against the basis of the calculations, as involving a needlessly expensive system. The Secretary of State took strong objection to the new burdens. He said:—"The abolition of a local European army in India was a measure dictated by considerations of Imperial policy; but it is questionable whether that measure could have been so easily carried, if it had been fully known how great would be the additional burden thrown upon the Government of India. Part of that addition was unavoidable, and may not be too great a price to pay for the expected advantages; but this additional cost should be kept within the limits of real necessity, and should not be aggravated by the maintenance of a system of recruiting which appears to be extravagant, and to have no reference to the exigencies of Indian service."

The War Office defended the charges mainly upon the ground that they were required for a totally different purpose—the purpose, namely, of making India contribute towards what was called an army of reserve; that is, for the purpose of making India pay towards the cost of the home" garrison of England, on the plea that some part of it, at some future time, might possibly be required in India.[1]

To this contention the Secretary of State replied that it was not only incorrect, but completely inverted the real facts of the case. "It would be much nearer the truth," he said, "to affirm that the Imperial Government keeps in

1. Cf. Ibid p 292. The India Office pointed out the logical conclusion of this argument in these words:—"A share of the cost of every home establishment or institution of whatever kind, to which the Indian Government affords custom or employment, or which has any contact, direct or indirect, with the administration of that country, might be claimed upon the same principle and under the same plea".

India, and quarters upon the revenues of that country, as large a portion of its army as it thinks can possibly be required to maintain its own dominion there; that it has uniformly detached European regiments from the garrison of India to take part in Imperial wars whenever it has been found necessary or convenient to do so; and more than this, that it has drawn not less freely upon the Native Army of India, towards the maintenance of which it contributes nothing, to aid it in contests outside of India, and with which the Indian Government had little or no concern."[1]

By the Act of 1858, Indian Revenues are to be expended "for the purposes of the Government of India alone;" and on this ground the Secretary of State affirmed the principle that "India cannot be justly charged with any expenditure which would have to be maintained if the Indian Empire did not exist."

The Government of India also commented in detail upon the Report of the Seccombe Committee. They advocated two principles for the future.[2] (1) That the charge for the depôts in England of regiments serving in India should be divided into two parts, the one representing the value of the presence of such troops in England, and of the general service rendered by them, which should be borne by Imperial revenues; the other representing the value of the labour of raising and training recruits for the battalions in India, which might be fairly charged to India. (2) That the charge for the cost of training the infantry recruit should be limited to three months during which he remained at the depôt. They also insisted upon the right of India to get some credit for those soldiers, who had been trained at the expense of India and who returned to England to join either the regular army or the reserve, not excluding, as hitherto, all who had less than two years to serve.

1. Cf. Ibid. p. 292, Despatch, 9-8-1872.

2. Cf. Ibid. p. 293. Despatch, 15-5-73.

The question was considered by the Select Committee of the House of Commons on East India Finance, 1874. From the evidence before them, they received an impression "that charges have in some instances been imposed on India which ought to have been borne by England." "Your Committee," they said, "cannot lay down too strongly the position that the English estimates ought not to be relieved at the expense of the Indian revenues; but that the Secretary of State in Council has the constitutional right of refusing to pay for objects in which he considers that India has no interests. At the same time, India, as a component part of the Empire, must be prepared to share the cost of a system the expense of which may be enhanced for Imperial purposes."

As suggested by this Committee, a departmental committee, presided over by Mr. Bouverie was appointed to settle the question. Their proposals increased the claims of the War Office on India, and were not accepted by the Secretary of State.

In the meanwhile, in connection with the newly introduced short service system,[1] (1870), the War Office advocated the grant of "deferred pay" as an inducement to men to enter the army. It was suggested that 51 per cent. of this charge must be thrown on India. With all its advantages to England, (*e.g.* in avoiding the burden of pensions), the short service system became a burden to India, by adding greatly to the cost of transport of troops

1. *Cf.* Fawcett, pp. 105-106. "As previously remarked, although short service may be an excellent arrangement for England, it was scarcely possible to have devised a more costly scheme of Army organisation for India; and yet it appears from evidence given before a parliamentary committee by Sir Thomas Pears, late Secretary of the Military Department at the Indian Office, that there is no official record that the influence which would be exercised on the finances of India by the short service system was ever considered by the English Government."

between England and India. It was also pointed out by the Secretary of State that the efficiency of the British Force in India would suffer "by the withdrawal of the finest material for the reserve force in England". The proposals of the Secretary of State to lessen the burdens on India, on account of the short service system were, however, not accepted.[1]

The accounts between the India Office and the War Office had remained in arrears and complaints were made against this irregularity. After some further discussion, a Commission with the Earl of Northbrook as president, was appointed (1879) jointly by the India Office and the Treasury. The Commission were asked to ascertain (1) the amount of the effective charges incurred in England in respect of troops serving in India; it was understood that for the payment of these charges the principle of a capitation rate had been accepted, and the Commission were asked to determine (2) what the rate should be, and (3) what basis should be taken for arriving at the numbers on which the rate was to be payable, and (4) for how long the rate was to continue in force without revision.

In the meanwhile, the Government of India again pointed out that[2] (1) the burden thrown upon India on account of British troops was excessive, (2) that the costly improvements in the British Army were due to England's position as a Great European Power, (3) that for all merely Indian purposes, a far less costly machinery would have sufficed, (4) that the charge in question should not be decided "by the mere rules of arithmetic, but on broad and statesmanlike views of public policy, which shall fairly adjust the claims of England to the capacities of India," and (5) that the people of India should not have reason to feel that they were being treated by Great Britain with want of justice or generosity.

1. *Cf.* W. O. II. p. 297.
2. *Ibid.* Despatch 8-2-1878.

For many years after the appointment of Lord Northbrook's Commission we find on the one hand, this discussion going on between the Indian and the English authorities, on the other we find the Commission unable to fix a satisfactory capitation rate. From year to year they recommended a lump sum in lieu of these charges, and postponed the consideration of a final settlement. In accepting the award for the years 1885 and 1886, the Secretary for War recorded that he was not prepared to accept without a strong protest a contribution short of £ 600,000 (exclusive of deferred pay), for any subsequent year.[1] Accordingly the War Office made a claim of £ 605,000 for the year 1887 and asserted that this was much less than the actual cost to the Imperial Exchequer, and that the short service system had benefited India. The War Office further desired to fix its claims for the future on this basis.[2]

The Government of India commented in detail upon the claims of the War Office. With regard to the short service system they pointed out that in introducing it, the efficiency of the army in India was not considered and that strong objections, both financial and military had been raised against its application to India. The increase in the number of passages to be provided, deferred pay and other inducements to serve counterbalanced any economy due to a reduction in pension charges. "While the cost of the recruit has been increased," they said, "the term of his service has been diminished. India, therefore, for a larger charge receives a less service."[3]

They proposed a reduction in the War Office claim for 1887 and recommended that a capitation rate of £ 5 should be taken as the basis of calculation in the future. In pressing their claims they said,[4] "The revenues of India

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1. *Ibid.* p. 300.
2. *Ibid.* p. 302.
3. *Ibid.* despatch 25-3-1890.
4. *Ibid.* p. 303.

have been charged with the cost of many charges in organisation not specially necessary for the efficiency of the Army in this country, and with the cost of troops employed on Imperial service beyond the limits of India. Millions of money have been spent on increasing the Army in India, on armaments, on fortifications, to provide for the security of India, not against domestic enemies, or to prevent the incursions of the warlike peoples of adjoining countries, but to maintain the supremacy of British power in the East. The scope of all the great and costly measures reaches far beyond Indian limits, and the policy which dictates them is an Imperial policy. We claim, therefore, that in the maintenance of the British forces in this country, a just and even liberal view should be taken of the charges which legitimately be made against Indian revenues." They further urged "that the people of India, who have no voice in the matter, should not be able to complain that an excessive military tribute is demanded from this country, while, on her side, England, with whom rests the final decision, should be able to show that this settlement has been effected in a spirit of justice and consideration to India."

Lord Northbrook's Commission made their final report in 1892,[1] in which they made awards for the years 1887, 1888 and 1889. For the years 1890 and 1891, they recommended a capitation rate of £ 7-10-0 per man on the establishment in India, excluding deferred pay which was to be determined by actual returns. This was accepted and applied to subsequent years also.

The Government of India, however, wanted the rate to be £ 5. The Majority Report of the Welby Commission, after examining the details of the capitation rate came to the conclusion that it was not necessary to change it then (1900), but that a revision might be made after five or

1. Appointed in 1879, they concluded their work in 1892, after 13 years.

six years. This revision was undertaken in 1906, ending in a compromise between the India Office and the War Office in 1908, the capitation rate being fixed at £ 11-8-0. In July 1920, the War Office claimed an increase in the capitation rate to £ 28-10-0 on which basis provisional payments were made in 1920 and 1921. In January 1921, the India Office requested for a reduction in this rate without success. Another appeal in February 1922 resulted in a provisional reduction of the capitation rate to £ 25-13-0. The final settlement of the question is still pending.[1]

"Regarding the Royal Air Force, since 1920–21 India has been making a provisinal payment of £ 100,000 per year to the Air Ministry for the cost of raising and training the annual drafts and reliefs of the Air Force personnel. No detailed calculation justifying the payment has yet been furnished by the Air Ministry to the Government of India. The payment works out to a capitation rate of about £ 54 per head of the authorised strength of the R. A. F. officers and other ranks in India."[2]

Non-effective payments to the War Office:—These payments consist of pensions to officers and men in the British Army in respect of their services in India.

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1. *Cf.* Inchcape Committee's recommendation on this point:—

"We recommend that the conclusion of a fresh regular settlement should be expedited and suggest that the most equitable arrangement will be to base the payment on the number of troops sent out and the cost of training them, to fix a separate rate for the technical services, and to allocate the cost to the War Office of training recruits between the India Office and the War Office *pro rata* to the normal colour service in each country, subject, to a due allowance for the potential value to the British Government of returned men available for the reserve."

Also *Cf.* Sir Purshottamdas's recommendation on this point:— "The Government of India take steps to get the revenues of India relieved of the capitation and transport charges on British troops."

2. Sir Purshottamdas' note op. cit. para. 42.

Up to 1870, a payment of £ 3,500 per annum for every 1,000 men of all arms in India was made. After that, the Government of India had to pay the capitalised value of its share of the pensions granted in each year to officers and men of the British Army. By a new arrangement made in 1884, the Government of India were asked to pay the proportion attributable to service in India of the pensions granted subsequently to that year.

The effective and non-effective payments to the War Office have thus a tendency to increase which can be seen from the following figures[1] :—

Year.	Thousand £.
1861	788
1875	863
1899	1,296
1913	1,844
1920	3,041

(*c*) *Rates of Pay.*

Another effect of the Army Amalgamation Scheme referred to above has been that any changes by way of increase in pay or allowances to the members of the British Army in England at once become effective in the case of the British soldiers serving in India, without reference to the condition of service in India, or to the financial position of this country. For example, certain increases in the pay of British troops in England in 1902 and 1904 had also to be given to British soldiers in India, which meant an annual addition to Indian military expenditure of £700,000. During the War, the soldiers and officers of the British Army in England received large increases in their rates of pay and allowances which are

1. Some less important items included in these payments have not been discussed.

now nearly three times the pre-war level. This has meant a treble increase in the cost of British troops to India.[1]

(*d*) *Transport Charges.*

In 1870, what is known as the short service system was introduced in connection with the British Army in England. Whatever the advantages of this system from the point of view of military efficiency to England, it has resulted in financial burdens to India. At the end of the period of their service, which was ordinarily about five years for officers and seven years for privates, the British troops in India had to be discharged and sent back to England, fresh recruits in turn being sent to India. This naturally increased the cost of transport of troops between England and India. Though England was a distinct gainer "by the withdrawal of the finest material for the reserve force," the transport charges of these troops both ways were levied on India. This question was brought before the Welby Commission who recommended[2] that half the cost of transport of troops to and from India should be defrayed by the Imperial Government. This amounted to £ 130,000 in 1900, at the time when the recommendation was made. Curiously in spite of the fact that the total of these transport changes has increased since 1900, and particularly during

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1 *Cf.* "Since 1914 the rates of pay and allowances of British warrant officers, non-commissioned officers and men of infantry units have been raised in England to very nearly three times the pre-war level. Consequently, in virtue of the Army Amalgamation Scheme, the cost of British troops to India has been very nearly trebled. The total excess of the pay and allawances of British other ranks in the Budget Estimates of 1922-23, over the actuals of 1913-14 was no less than Rs. 498.9 lakhs although the number in 1922 was smaller by over 5,500 men." para 29 of Sir Purshottamdas' Note on Military Expenditure.

2. Report, para 125.

the War,[1] India still receives only £ 130,000 instead of half of the actual expenditure.

(e) *Other items.*

Among other charges of a similar nature, chiefly to provide special comforts to the British elements of the Indian Army, the following may be briefly mentioned:— (1) Military Dairies are run to supply milk at cheap rates to British soldiers and their families at a loss to the state; (2) in addition to the civil expenditure on the Ecclesiastical Department, there is a separate charge for the Military Ecclesiastical Department for British troops; (3) hill sanitaria snd depôts are maintained for British troops only; (4) a few of the army educational and institutional establishments are reserved for British officers, and the expenditure on army education for British troops is three times that for Indian troops.

(3) *Employment of Indian Troops out of India.*[2]

In the following table a list of the more important expeditions in which Indian troops were employed at the bidding of the Imperial Government for non-Indian purposes and outside the frontiers of India, has been given. Thə way in which the cost of the troops was apportioned between England and India on each occasion has been shown. In some cases, the actual or estimated cost to

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		£
1.	1913	320,000
	1922	925,700
	1923	693,000 (figures from Sir Purshottamdas, op. cit. para 43).

2. Reprinted with corrections from an article on this subject contributed by the author to the Modern Review, Calcutta, September 1922.

either country has been given. The detailed discussion which follows is confined to expeditions after 1860 :—

List of the more important expeditions in which Indian Troops were employed outside the frontiers of India, showing the way in which the cost was apportioned on each occasion.

Date.	Expedition.	Ordinary Charges. Paid by India.	Ordinary Charges. Paid by England.	Extraordinary Charges. Paid by India.	Extraordinary Charges. Paid by England.
1838-42	1st Afghan.	All	...	...	All
1839-40	1st China.	All	...	...	All
1856-57	2nd China.	...	All	...	All
1856	Persia.	All	...	Half	Half
1859	3rd China.	...	All	...	All
1867-68	Abyssinia.	All	...	...	All
1875	Perak.	All	...	...	All (colonial govt.)
1878	Malta.	...	All	...	All
1878-81	2nd Afghan.	All	...	All but 5 m. £.	5 m. £.
1882	Egypt.	All	...	All but ½ m. £.	½ m. £.
1885-86	Soudan.	All	...	...	All
1885-91	Burma.	All	...	All	...
1896	Mombasa.	...	All	...	All
1896	Suakin.	All	...	...	All
1898 to 1914	South Africa, China, Persia, etc.	Some charges in case of Persia.	All	Some charges in case of Persia.	All
1914 to 1920	The World War and after.	All	...	...	All

The actual or estimated cost to India in some of the expeditions was as under :—

				£.
Perak	...	...	...	41,000
2nd Afghan	...	...	...	12,516,000
Egypt	...	...	...	1,250,000
Burma	...	...	...	4,705,600
Suakin	...	...	...	231,900
				Rs.
The World War		...	...	137,70,00,000

The table has been compiled from Welby Commission, vol. 2, p. 305; Parliamentary Paper 13 of 1900; and Annual Financial Statements.

1867-68—Abyssinian Expedition :—The decision to charge the ordinary cost of the Abyssinian expedition was challenged in Parliament.[1]

1. P. P. C. 8131 of 1896.

Mr. Fawcett said,

"Heavy taxation was infinitely preferable to this country incurring the reproach of having cast the slightest injustice on the unrepresented millions who lived in our dependencies."

Lord Salisbury said,

"Having regard to the future, I do not like India to be looked upon as an English barrack in the Oriental seas from which we may draw any number of troops without paying for them. It is bad for England, because it is always bad for us not to have that check upon the temptation to engage in little wars which can only be controlled by the necessity of paying for them."

The Secretary of State in his letter to the War Office of 9-8-1872, referred to this question.[1] After enumerating the occasions on which India was called upon to supply troops for Imperial purposes, he said,

"It is certain that all these wars were dictated entirely by the Imperial Government and that the interests of British commerce, the grievances of British merchants, or the honour of the British Crown, were the determining considerations in them all."

Referring to the argument that India had her own share of interest in these wars, he replied that,

"Community of interests within certain interests may fairly be alleged; but it must not be alleged only when it tells in favour of the Imperial Exchequer, and repudiated when it tells in favour of the Indian taxpayer."

He pointed out that in all cases, when reinforcements were sent from England to India, the whole pay of the troops so sent was charged to India, from the moment of their departure from the shores of England; whereas whenever India was called upon to provide troops for foreign expeditions she was charged with their ordinary pay during their absence.

1875—Perak Expedition:—At the time of this expedition, the Government of India protested that if the precedent of the Abyssinian war was followed, a principle

1. W. C. vol. 2, p. 293.

would be established, which would be inequitable to Indian revenues. The ordinary cost of the expedition was, however, thrown on India, though the Secretary of State agreed that it would not be regarded as a precedent for any future case.

1878-81—2nd Afghan War :—This war was considered to have been undertaken solely in the interests of India. It was objected[1] that the war was the outcome of the Imperial Policy adopted by H. M.'s Government, that it was aggressive, and not required for the defence of India. The Government of India, however, asserted that it "was undertaken for the protection of India from the menaces of foreign aggression[2]." It was to remove the imaginary possibility of new conditions on the North-West Frontier, which might disturb the foundations of English power in India, that this war was fought. The Finance Member held that "great as is the interest of England in preventing such consequences, the questions at issue were primarily and essentially Indian questions." The actual expenditure of the war went beyond all estimates, and the Government in England at last felt the force of the arguments against throwing the whole burden on India. A subsidy of 5 million £. was given from the Imperial Exchequer. India had to provide for 12.5 million £.

1882—Egyptian expedition :—At the time of sending troops for the Egyptian expedition, the Government of India again protested against the charges that were proposed to be levied on India. Their chief arguments were :—(*a*) That the interests of India were not involved to such an extent in the maintenance of the established

1. Lord Salisbury declared that the Afghan War formed "an indivisible part of a great Imperial question." *Cf.* Welby Commission Report, p. 187; and also Fawcett—Indian Finance, p. 111.

2. F. S. 1880.

rights, either of the Sultan, or of the Khedive, or of the people of Egypt, or of the foreign bondholders, as to justify, so far as those interests only were concerned, a resort to arms, and, in consequence, the expenditure of large sums of money to be borne by the Indian taxpayer.

(*b*) That though India had some interest in the transit through the Suez Canal, the interest of England was greater. Both countries were equally interested in the trade dependent on the Canal, but almost all the ships, under the British flag, passing through the Canal, were owned by H. M.'s British subjects. Again, though India had greater interest in the Suez Canal than Australia and other Eastern possessions, India should not be asked to pay for armed intervention in Egypt, unless the Australian and other colonies paid their proportionate share.

(*c*) That the proposal was likely to exercise an injurious effect upon the political connection between England and India. The taxpaying community of England was among the wealthiest, whilst that of India was among the poorest in the world; and it was pointed out that it could not be in consonance with justice or sound Imperial policy that the wealthy and dominant race should relieve itself of charges at the expense of the poor and subject race, if the smallest doubt could be thrown on the equity of such a proceeding.

(*d*) That a nation, which through its representatives could decide whether peace or war was desirable, is, in so far as the question of taxation consequent on the war is concerned, in a very different position from one which has never in the slightest degree been consulted upon the advisability of war, but which is required to pay the cost of the war by order of a distant authority.

(*e*) That the finances of India were exposed to special difficulties.

This protest, however, failed to convince the Government in England. They gave a contribution of half a

million, and India was asked to provide for the whole of the remaining cost of the expedition, both ordinary and extraordinary, which amounted to 1¼ million £.

1885-86—Soudan Expedition :—With reference to this expedition, the Government of India again recorded a strong protest. They urged that the operations in the Soudan had no connection with any Indian interests, that they were altogether outside the sphere of their responsibilities, that the pretensions and aims of the leaders of the rising in Africa were a matter of indifference to the Government of India, and that the question of the safety of the Suez Canal was not involved as in 1882. But before their despatch had reached England, the Parliament had passed a resolution that India should bear the ordinary charges of the expedition. Referring to the discussion on this matter, the Secretary to the Treasury wrote, "as my Lords understand the proposed arrangement, there is no desire on the part of the Indian Government to save money by means of the expedition." The Government of India, in answer to this, cited the case of the Mutiny, and repeated the words of Lord Lawrence :—

"All the troops and all the material which were sent from England to aid in putting down the Mutiny in 1857 and 1858 were paid out of Indian revenues. It was never urged that, because the measure afforded a temporary relief to the British Exchequer, a portion of the ordinary cost of these troops should be paid by England."

1885-91—Burmese Wars :—Large additions were made to the strength of the Indian Army after 1885, on account of the fear of a Russian invasion. This increased military power made it possible for the Government of India to pursue an agressive policy towards Burma, which resulted in protracted campaigns extending over several years, ending in the conquest and annexation o that country. The expenditure due to the wars in Burma amounted to 4·7 million £. The cost of the civil administration of Burma, also, became a heavy burden on Indian

revenues for many years. The people of Burma were brought under British subjection, at the cost of the Indian taxpayer.

1896—Mombasa Expedition :—On this occasion the Foreign Office and the Treasury tried to throw some burden on India, but the Secretary of State remained firm, and pointed out "the absence of reciprocity in such arrangements". All the charges were, on this occasion, as in the case of the expedition to Malta in 1878, defrayed from the English Treasury.

1896—Suakin Expedition :—But in the same year, another expedition was sent to Suakin, the ordinary charges of which were proposed to be levied on India.[1] The Government of India again protested in vain :—

"In order to strengthen Suakin, and to set free Egyptian troops for employment on the Nile, we have been asked to provide a garrison composed of troops from the Native Army in India. We cannot perceive any Indian interests, however remote, which are involved in carrying out the policy above described; it cannot be alleged that the safety of the Suez Canal is involved; and the taxpayers of India, who have to bear the cost of ordinary charges of the Indian troops proceeding to Suakin, will hardly comprehend the reasons for taxing them for troops which are not serving in India, in order to maintaion order on the Egyptian frontier, to re-conquer part of an Egyptian province, or to assist the Italian forces."

They concluded—

"In these circumstances, we feel it our duty, in the interests of the country of which the administration is entrusted to us, to protest once more in the strongest terms against a policy which burdens Indian revenues with expenditure connected with services in which India has no interest; which is unjust to India, because it applies, to the payment of Indian troops lent to England, a different

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1 Sir James Peilie and Field Marshal Sir Donald Stewart, members of the Council of India, recorded a minute of dissent against the decision of the Secretary of State to charge India with the ordinary cost of the expedition. Cf. Parliamentary Paper, 236 of 1896.

principle from that which England imposes when English troops are lent to India; and which is inexpedient, because it exposes our Government to attacks to which there is no adequate answer."

In replying to this, the Secretary of State in his despatch of 30-6-1896 laid down three propositions which he thought should govern the relations between the two Governments :—

"(1) That on all occasions, when the temporary loan of a military force is urgently required either by Great Britain or by India, such assistance will be promptly given, so far as the ability, resources, and the situation of either country at the time may permit. (2) That if the object for which such assistance is required is one in which the Government supplying the troops has no special interest beyond that which must be common to all members of the Empire, the whole cost of the force, so long as it is required, including both ordinary and extraordinary charges, must be borne by the country that needs the assistance. (3) That if the circumstances are such that the Government supplying the troops has a distinct and special interest[1] in the matter at stake, then, although the interest may be less strong than that of the Government requiring assistance, the Government supplying the troops should be content to bear, in one form or other, a portion of the burden which the operations involve."

The Welby Commission agreed to these propositions, but they said that the real difficulty was to discover the means by which the interests of the two Governments might be most accurately and authoritatively ascertained. As a solution of this difficulty they recommended that the geographical scene of the operations should be the basis for the allocation of cost between the two Governments and they laid down certain geographical limits within which India might be considered to have a direct and substantial interest. They desired that the propositions

1. Sir Donald Stewart and Sir James Peilie, suggested the substitution of "direct and substantial interest" in the third proposition, in place of "distinct and special interest." The Welby Commission (Report, para 300) preferred the amendment.

laid down by them should be entered in an official document to which the two Governments should be parties. The propositions were[1] :—

1. That India has not a direct and substantial interest in the employment of forces in Europe; in Africa west of the Cape of Good Hope; in Asia east of China.

2. That India has a direct and substantial interest in keeping open the Suez Canal, and in the maintenance of order and established government in Egypt so far as the security of the Suez Canal is affected thereby. This interest might extend to the coasts of the Red Sea only so far as to maintain the inviolability of that shore, but not to the Soudan, or further extensions of Egypt up the valley of the Nile or its affluents.

3. That India may have a modified interest in questions affecting the East Coast of Africa as far as Zanzibar, and the African islands in the Indian Ocean, except Madagascar.

4. That India has no direct or substantial interest in the African coast south of Zanzibar.

5. That India has a direct and substantial interest in questions affecting Persia, and the coast and islands of Arabia and of the Persian Gulf.

6. That India has a direct and substantial interest in questions affecting Afghanistan and that part of Central Asia which is adjacent to the borders of India or Afghanistan.

7. That India has sole interest in punitive expeditions on her borders.

8. That India has a direct and substantial interest in questions affecting Siam.

9. That India has a modified interest in questions affecting China and the Malay peninsula.

10. That India has no direct or substantial interest in Japan or countries or islands east and south of China.

11. That special cases may arise giving to India a direct and substantial interest in questions connected with Europe or other territories in which the minute declares her to have, as a general rule, no interest.

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1. Cf. Welby Commission Report, paras 300 and 307; and also Minority Report, para 96 onwards.

12. That in every case where the two Governments are not agreed, no contribution should be made by India until the sanction of Parliament has been obtained.

These recommendations were accepted. The practice against the injustice of which the Government of India had so repeatedly and strongly protested received the approval of a Royal Commission, and was embodied in an official document to which the Treasury and the India Office became parties.[1] A direct and substantial interest of India could now be shown in many remote places with ease. Where this would be difficult India would still have a modified interest. That India had no interest in Europe and other territories had to be accepted, but provision was made for special cases. In case of disagreement between the two Governments, Parliament was to decide. It is well known that the sanction of Parliament in such matters is a mere formality of which the Cabinet need be in no fear. If the Government in England decided to charge India with the cost of a certain expedition against the wishes of the Government of India, the sanction of the Parliament would follow automatically. Besides, it is to the interest of members of Parliament to lessen the burdens of those whom they represent.

1898-1914 :—Expeditions to South Africa, China and Persia :—During this period we frequently hear of the despatch of Indian troops for service in South Africa, China or Persia and other places. These expeditions with the exception of that connected with the South African War, were on a small scale and the expenditure, in most cases was small, though the aggregate must be large. As a general rule, in accordance with the above arrangement, both the ordinary and extraordinary charges were met either by England or by the Colony concerned, which resulted in a temporary saving to the Indian Treasury. A considerable part of the expenditure due to operations in the Persian Gulf was taken from India.

1. P. P. 169 of 1902.

1914-20 :—The World War and After :—During the last war, large numbers of Indian troops served in the Allied cause in all the different frontiers. It would be interesting to get from Government a return showing the exact number of Indian troops despatched to each different scene of action along with the cost. According to resolutions passed in the Imperial Legislative Council and the Parliament, the ordinary cost of these troops was borne by India. The effect of this procedure was as explained by the Finance Member that,

"Although we sent a large number of our best troops out of the country at a time when mere consideration of local safety might well have dictated their remaining here, we pay for them just as if they were still employed in India and at our beck and call."

In 1917, a Special War Contribution of 150 crores of Rs. was given by India to H. M.'s. Government. This was provided out of loans; the resources of the Government of India were increased by 9 crores of Rs. a year to meet the consequent interest and sinking fund charges. In September 1918, the Imperial Council passed a resolution to the effect that an additional War Contribution, then estimated at 67·5 crores of Rs. be given by India in view of the prolongation of the war. This expenditure was to be met from revenue and spread over two or three years. Soon after this, however, two events occurred :—(1) the Armistice was signed, and (2) the Government of India entered into hostilities firstly with the Amir of Afghanistan and then with the frontier tribes. In view of the heavy expenditure which India had to provide for the Frontier Wars (39 crores in all), the above resolution was revised in March 1920, with the effect that the additional War Contribution contemplated in September 1918, was reduced to 21·6 crores.

It is difficult to form an estimate of the charges which India met on account of the War. We shall, however, hazard an estimate on the following basis. From 1914

to 1920, (taking into consideration the period of demobilisation), the Military expenditure of India has increased directly or indirectly on account of the War, including the payment of "Ordinary Charges" for the troops sent abroad. In 1913, the total expenditure on "Military Services" amounted to about 32 crores of Rs. If no part of the cost of the troops that were sent out of India was paid by her, the military expenditure during the subsequent years would have been less than this amount. Not stressing this point, however, let us suppose that the military expenditure of India would have remained the same as in 1913, if the war had not affected us. The total excess of the actual military expenditure during 1914 to 1920, over the normal military expenditure during the same period, on the basis of the expenditure of 1913, amounts to 176·6 crores of Rs. From this if we deduct the expenditure due to the Afghan War and other Frontier Operations—(38·9 crores), we are left with 137·7 crores. This includes the additional War Contribution of September 1918, which ultimately amounted to 21·6 crores. Of course, this figure of 137·7 crores does not include the recurring liabilities of 9 crores on account of the First War Contribution of 150 crores, which was given by means of loans.

If we take it as approximately correct that "the extraordinary charges" of the Indian troops sent abroad during the war must have amounted to 150 crores of Rs., we may say that in reality India bore both the ordinary and, by means of the War Contribution of 1917 (150 crores), also the extraordinary expenditure of her troops, lent for Imperial Service, partly out of revenue and partly out of loans.

The *conclusions* at which we arrive from the foregoing review are :—

1. That H. M.'s Government often calls upon India for military aid in non-Indian wars and expeditions.

2. That if large numbers of troops could be sent out of India so frequently, without any danger to the safety of India, the Government does maintain a larger army than is required strictly for Indian purposes.

3. That as a general rule, with the exception of the last war, the revenues of India have been charged with the expenses of these expeditions against the wishes and protests of the Government of India themselves.

4. That in view of the experiences of the last war, and also of the large additions to the British territory in Asia, it is likely that India may be called upon to maintain an army larger than required for her own purposes, to be used for non-Indian expeditions as in the past. The fact that the Military Budget of India absorbs half of the Central Revenues, and that it is not subject to the vote of the Legislative Assembly, supports the foregoing apprehension. The fears raised by the Report of the Esher Committee were of a similar nature.

(4) *Forward Policy on the North-West Frontier.*

This policy is due to the fear of a Russian invasion. It has come into being in consequence of the idea that the anticipated struggle with Russia should be kept at a distance from the borders of India, that the war must be carried into the enemy's country, and that the independent tribes on the frontier should be reduced to submission, in order that they may not create trouble in case of war.[1] But as we shall see later, it is this interference with the independence of the tribes that has created discontent and hatred among them. Besides it is just as impossible for England to carry war into Russia's dominions as it is for

1. **Cf. Hanna—Can Russia invade India. pp. 109-110.**

Russia to invade India,[1] and the only consequence of extending the frontier is to lessen Russia's difficulties and to increase those of India.

Afganistan is a barren country inhabited by warlike people, whose love of independence is sufficiently strong to prevent any foreign interference in their country. Both Russia and England have tried to extend their spheres of influence in Afghanistan and have failed. The Afghans are conscious of their situation between these two powerful rivals, but history tells us that their spirit of independence has prevented them from siding with one or the other. Neither the ambitions of Russia, (if they ever existed), nor the fears of England have shaken them from their resolve to have as little to do with foreigners as possible. In case of war if either the Russian or English troops occupied Afghanistan they would on the one hand suffer from want of food, because Afghanistan has barely enough for her own people; on the other they must be prepared to die in thousands at the hands of the martial and irreconcilable races which inhabit that country.[2]

Colonel Hanna with his experience in the Second Afghan War and with a deep and comprehensive study of the

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1. Cf. "If the course of events should ever bring us to a struggle with the Northern Power on our Indian Frontier, the winning side will be the one which refrains from entangling itself in the barren mountains which now separate the two Empires"—Sir John Lawrence—"Why advance beyond the mountains forming our present strong frontier, and make the difficult accessory zones in advance the principal field of operations, thereby complicating our strategic difficulties and doubling the extent of our theatre of operations?"—Sir Peter Lumsden. quoted in Hanna's "India's Scientific Frontier"—p. 4.

2. Cf. The lessons of the first and second Afghan Wars.

whole question has shown that[1] Russia possesses no base in Central Asia for the organisation and supply of a large army; that the acquisition of Afghanistan would not furnish her with one, and therefore she must remain for all purposes of an invasion of India, hundreds of miles away; that the Transcaspian Railway is hampered by want of water and is open to Persian attack and that if it were extended further, it would be in constant danger of "sandstorm, or snowstorm, earthquake or flood", and open to the attacks of the Afghan tribes, and therefore this railway is a precarious means of communication; that in any case Russia would be in the necessity of organising a large animal transport train, that Central Asia and Afghanistan cannot supply the beasts of burden sufficient to move a force adequate to such an enterprise, that their numbers even if they could be obtained, would make it impossible to feed them; that if all these difficulties were overcome, there is no point within striking distance of British territory where a Russian army could halt to concentrate and recruit, and "that by whatever route it might elect to advance, by one line or many it would always enter India in a succession of very small bodies."

Colonel Hanna has further shown "that the old Indus Frontier is, by nature, so exceptionally strong as to merit the epithet invulnerable; that its lines of communication, both lateral and in rear, are all that can be desired, and that behind it we could bring our resources to bear upon an invader with the maximum of certainty and speed, and be in a position to crush him at the least possible expense and loss to ourselves, and the greatest possible expense and loss to him; and, on the other hand, that the new Frontier, which has replaced that of the Indus Valley, not only lacks the advantages attaching to the latter, but has

1. Cf. Hanna—Backwards and Forwards, p. 110. Cf. Ibid. p. VI.—Lord Beaconsfield, speech on Lord Mayor's Day, 1878—"So far as the invasion of India in that quarter is concerned, it is the opinion of Her Majesty's Government that it is hardly practicable. The base of operations of any possible foe is so remote; the communications are so difficult, the aspect of the country so forbidding, that we have long arrived at the opinion that an invasion of our Empire, by passing the mountains which form our North-West frontier, is one which we need not dread".

2. Ibid pp. 111-113.

actually transformed them into dangers; that its communications are bad; that all our attempts to render them trustworthy have failed; that the forces by which it is held are out of proportion small compared to the area and character of the country, and the temper of the people they are expected to control; and that this weakness is not accidental, but inherent in the situation—the cost of maintaining troops in a barren country at a great distance from their sources of supply, compelling the military authorities to cut down their numbers within the narrowest limits compatible with the performance of their duties under ordinary circumstances, and to allow no margin to meet emergencies."

In spite of this, the Government of India has pursued an aggressive policy on the North-West Frontier from time to time, particularly from 1878, when the Second Afghan War was fought. It would be beyond the scope of this work to go into the details of military and diplomatic history, but it is well known that three successive Viceroys, Lords Lawrence,[1] Mayo and Northbrook were against the

1. *Cf.* the reply of Lord Lawrence's Government to the memorandum of Sir Henry Rawlinson advocating an aggressive policy on the frontier:—

"We object to any active interference in the affairs of Afghanistan by the deputation of a high British officer with or without a contingent, or by the forcible or amicable occupation of any post, or tract, in that country beyond our own frontier, in as much as we think such a measure would, under present circumstances, engender irritation, defiance, and hatred in the minds of the Afghans, without in the least strengthening our power either for attack or defence. We think it impolitic and unwise to decrease any of the difficulties which would be entailed on Russia, if that power seriously thought of invading India, as we should certainly decrease them if we left our own frontier, and met her half way in a difficult country, and, possibly, in the midst of a hostile or exasperated population. We foresee no limits to the expenditure which such a move might require, and we protest against the necessity of having to impose additional taxation on the people of India, who are unwilling, as it is, to bear such pressure for measures which they can both understand and appreciate. And we think that the objects which we have at heart, in common with all interested in India, may be attained by an attitude of readiness and firmness on our frontier, and by giving all our care and expending all our resources for the attainment of practical and sound ends over which we can exercise an effective and immediate control."

idea of embarking on a forward policy which involved the forcing of diplomatic relations with the Amir against his wishes, and a control over the independent and barbarous tribes that inhabit the barren area between the Afghan and British Indian boundaries. It was as a protest against the dictation of an aggressive policy against Afghanistan due to European complications by the British Government (Lord Salisbury) that Lord Northbrook resigned from his position as Viceroy of India in 1876. His successor Lord Lytton was imbued with the ideas of Lord Salisbury, and carried out his policy, and in doing so waged a most ruinous war. It is interesting to note that till the eve of the outbreak of the Second Afghan War, public opinion in England was kept in the dark. When the matter at last came before the Parliament, this policy was strongly criticised in both houses. Fawcett's amendment to the proposal to saddle the revenues of India with the cost of the war was however defeated. The Council of the Secretary of State was also kept in the dark for a long time by the skillful device of transferring the business to the Secret Department of the India Office.[1] Sir Barrow H. Ellis and Sir R. Montgomery, members of the Council, protested against placing on India any part of the extraordinary charges of the war, which they held to be due entirely to European complications.

The War came to an end by the treaty of Gandamak, 26-5-1879, by which the Amir agreed to conduct his relations with Foreign States in accordance with the advice and wishes of the British Government, and the latter

1. *Cf.* Fawcett p. 11.—"Lord Salisbury and Lord Cairns, having, as has just been shown, expressed a decided opinion that "in reference to every question in which expenditure is involved the Indian Council have the power of absolute and conclusive veto by a bare majority over the decision of the Secretary of State," are members of a Cabinet which adopted a "forward" frontier policy in India, involving an expenditure of millions, not only without the consent of the Council being obtained, but without the matter being brought within their cognizance."

agreed to support the Amir against any foreign aggression with money, arms, or troops, to be employed in whatsoever manner, the British Government might judge best for this purpose. A British Representative was to be allowed to reside at Kabul, for whose safety the Amir was responsible. The districts of Kurram, Pishin, and Sibi were assigned to the British Government, that is, they were to be under British control, the revenues after deducting the charges were to be paid to the Amir. The control of the Khyber and Michin Passes was transferred to the British. The Amir got an annual subsidy of 6 lakhs of rupees.

The necessity of going into the details of political history at some length will be evident when it is remembered that the direct cost of the Afghan War was 17·5 m. £ of which only 5 m. £ was afterwards provided by England[1]. The Finance Member admitted in 1882 that

1. Cf. Fawcett pp. 40–41. "It is, however, of the utmost importance to the future of India that the consequences involved in carrying out what is known as a "forward" frontier policy should be considered in their financial as well as in their military aspects. It would not be more unreasonable to decide what is the best house for a particular individual to live in, without having any regard to his income, than it is, on a mere consideration of military tactics, to determine to advance the frontier of India, without first ascertaining the expenditure which such an advance would necessitate. It is particularly worthy of remark that those who have been foremost in advocating a "forward" frontier policy in India have apparently ignored any consideration of its cost. The long and able statements of Sir Henry Rawlinson, Sir Bartle Frere, and Lord Napier of Magdala, contain scarcely a single reference to the financial aspects of the policy which they advocate. On the other hand, nothing can be more precise than the declarations of many of those most competent to express an opinion on the question, that the frontier could not be advanced without causing a most serious permanent addition to the military expenditure of India.. Lord Lawrence, speaking of such an advance as is now contemplated, declared that it would "paralyse the finances of India."

the expenditure on war was wrongly classified. A great deal of the expenditure due to the war was debited to the ordinary military account and several charges were set down in the Civil account. Strategic railways on the frontier and the Baluchistan agency also involved heavy charges. It was in order to provide against the possible invasion of India by Russia that the Amir was forced to accept British interference in Afghanistan. That invasion has not come to this day and may never come. Without in any way increasing the security of India, the aggressive policy involved the country in this huge expenditure at a time when the Indian taxpayer was suffering from the effects of a widespread famine. And this was yet the earliest stage in the Forward Policy; the subsequent developments were to involve the country into regular compaigns from year to year, the financial consequences of which are seen in the struggles of successive Finance Members to find fresh sources of revenue from time to time[1].

1. Cf. "If we enter on a course of successive measures of fresh taxation, Russia, without moving a man or a gun, need only to bide her time. If slow and sure is her game, surely and slowly we shall be playing her hand for her". Sir Aucland Colwin, Finance Member, quoted in Hanna—Backwards and Forwards, p. 41. Cf. also "Prophecies of danger to India and the Empire which the presence of a British Agent at Herat alone could dissipate; solemn assurances that it was no longer possible to maintain satisfactory relations with Afghanistan unless a British Resident were permanently established in Kabul—read in the light of subsequent events, would provoke a smile, did not the recollection of the price paid for opening men's eyes to their futility, check any inclination to mirth. Twenty-five years have passed since, trusting to those prophecies and assurances, the two Houses of Parliament gave to Lord Beaconsfield and his colleagues the moral support which they claimed for their Afghan policy, and the material means to enable them to enforce it; and yet though, from that day to this, there has never been a British Agent in Herat, and, only for the shortest interval a British Resident in Kabul—India's security has not been imperilled, and, in the eyes of her inhabitants the British Empire has suffered no loss of prestige". Hanna—Second Afghan War, Volume II. pp. 140-141.

The policy followed immediately after the treaty with the Amir shows that it was not possible to take advantage of the apparent gain conferred on the British by the treaty. The Kurram Valley was evacuated. Regular troops were withdrawn from the Khyber, which was now guarded by Afridi levies subsidised by the British. The Pishin Valley was retained as an assigned district, but the railway from Sibi to Pishin was abandoned.

This stituation continued, till in 1885, the Penjdeh incident[1] gave the "forward" school of politicians the excuse for realising their ambitions. Under the guidance of the new Commander-in-Chief, Sir F. Roberts, feverish activity began on the North-West Frontier. On the one hand large additions were made to the Standing Army of India. In 1886, 10,753 European and 8,334 Indian soldiers were added, and a further addition of 10,886 of Indians was made in 1887. On the other, railways, roads and fortifications were undertaken on a large scale. The wild tribes through whose territories these preparations were made rebelled from time to time from natural fear and suspicion. They had to be subdued by frequent military expeditions. 43,000 square miles were added to the British Empire in this way,[2] by far the greater portion during the decade following 1885. The huge areas thus occupied are barren wastes and the British can do nothing to turn them into fruitful fields. The interests of the tribes inhabiting these areas cannot be furthered by the British for there is no peaceful occupation for them. Their only occupation—fighting and plundering, and their chief delight—their independence, have gone with the peace imposed upon them. They

1. In 1885, on the one hand negotiations were going on between England and Russia for fixing the Afghan boundary on the Russian side; on the other the Amir had gone to Rawal Pindi to meet the Viceroy to strengthen the friendly arrangements existing between them. It was at this time that the Russian General Komaroff, on the ground that the proceedings of the Afghans were "provocative and manifestly hostile" attacked them at Penjdeh, an important position on the route to Herat. The place was occupied by the Russians, and the Afghans suffered some losses This incident created great excitement in India and England, and war was supposed to be imminent. However, the negotiations between Russia and England at last came to a satisfactory end. Cf. "Times" 10 April 1885 onwards.

2. Cf. Hanna—India's Scientific Frontier, pp. 55, 64 and 65.

naturally look upon the permanent British garrisons in their midst with hatred and discontent, which frequently result in isolated attacks or combined rebellion.

In 1894 the subsidy to the Amir was increased to 12 lakhs, and he consented to allow the English to bring the remaining independent tribes under their influence, and a Delimitation Commission was appointed to determine the new frontier. The inhabitants of Waziristan opposed this intrusion and were reduced to submission after severe fighting.

This gradual advance which cost India large sums of money from year to year was carried out without much notice, until in 1895, a similar interference in Chitral resulted in a costly war, and attracted public attention.

The general provocation that was offered to the tribes in this way resulted in a series of insurrections and attacks in the years 1896-98 in subduing which large sums of money had to be found from the Indian revenues, when India was suffering from a great famine.

Without going into the details of the frequent expeditions of a minor character, against the tribes on the North-West Frontier, it may be said that the British Government has been trying to spread its civilising influence in that area ever since the Second Afghan War. With a view to keep these wild and warlike tribes in a state of peace and order, the Government of India gave them allowances in return for certain services. So long as they do not commit offences in British territory, the Government has no intention to disturb them. But as a rule, it has been found necessary to keep them under control by force. To give the instance of only one tribe, the Government of India has a campaign against Waziristan, on an average, every four years.[1]

In recent times, the fear of a Bolshevik advance on the Indian frontier has taken the place of the Russian

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1. "India in 1920" page 10.

invasion which was expected in former years. During the War, the Amir of Afghanistan observed his pledge of friendly neutrality, but the disturbed condition of that country after the murder of Amir Habibullah in February 1919 added to the fears of the Indian authorities, particularly because during the interval, the Bolsheviks had spread their influence nearer in Central Asia. It is not our purpose to discuss the causes of the Third Afghan War waged by the new Amir with the Indian Government. The reason officially assigned is that the new Amir in order to strengthen his position was anxious to give the war-party in Afghanistan some active work and therefore took aggressive steps on the frontier. The treaty which brought this war to an end, on the one hand recognises the freedom of Afghan foreign relations from British control, on the other, the Government of India is no longer required to pay an annual subsidy to the Amir. The Anglo-Afghan treaty of November 1921 has re-established friendly relations between the two countries as well as commercial and diplomatic intercourse. This treaty was preceded by written assurances from the Afghan Government, that Russian Consulates should be excluded from the Indo-Afghan frontier.

Though the relalions between Afghanistan and India are now on this friendly basis, the Afghan War has left a legacy of trouble in connection with the frontier tribes. The systematic work of civilising these tribes carried on by the British Government during the last 40 years or more at the cost of heavy expenditure to the Indian treasury, and of Indian and British blood seems to have borne little fruit. We can only admire the determination to enforce peace on these border tribesmen in the hope "that they may be weaned from their life of rapine and violence, and may find both in material improvement in their country, such as the extension of irrigation and cultivation, and in civilising intercourse with India, a more stable prosperity

than they have ever derived from their traditional profession of robbers and marauders."[1] This determination has taken the form of the occupation of Waziristan, and the construction of roads and railways in that area with a view to improve frontier communications. This action has meant heavy expenditure at a time when India is suffering from a series of unprecedented deficits in her finances, and has evoked considerable criticism.[2]

The Foreign Secretary in explaining the policy of the Government in March 1923, held that the tribesmen inhabiting the area between the Afghan boundary (the Durand Line) and British India proper belonged to India, that a thorough-going forward policy bringing them under Indian Administration was not possible because of financial reasons, and that therefore the present policy of Government was to bring the Mahsud country, the strategic heart of Waziristan, under control. The construction of special roads in this connection has been undertaken, which is supposed to be "a big step forward on the long and laborious road towards the pacification through civilisation of the most backward and inaccessible and therefore the most truculent and aggressive of all tribes on India's border."[3]

The necessity of going into these military developments will be evident when we remember that the Forward Policy has been estimated to have cost the Indian treasury 135 crores of Rs. since 1878.[4]

1. "India in 1920" pp. 10–11.

2. Cf. Sir Purshottamdas, op. cit. p. 18, "that the occupation of and military operations in regions beyond the administrative borders on the North-West Frontier be abandoned, and not revived without very strong and grave reasons".

3. "India in 1922-23," p. 47.

4. Cf. Sir Purshottamdas op. cit. p. 7.

(5). *Military Works.*

In the early part of the sixties of the last century, a great sanitary wave overtook England, and did not leave India unaffected.[1] Under the influence of this impulse, orders were issued that healthy barracks should be erected all over India, at an estimated expense of £10 millions, with the utmost possible dispatch. An Inspector-General of Military Works was appointed, to assist in dealing with the various questions connected with the construction of barracks, and he prepared a series of recommendations and memoranda as to the designs of the buildings, the size of the rooms, the space per man, and the number of stories. With the approval of the Army Sanitary Commission, the work was at once started in 1864.

The way in which the question of finding such a large sum when the effects of the Mutiny were still not over was handled by the authorities was peculiar. Although when Sir Charles Trevelyan recommended a loan for this purpose, it was disallowed[2] by the Secretary of State, when the proposal was brought forward again by Mr. Massey in a subsequent year, it was sanctioned. But what is more remarkable is that this process of borrowing for barracks was a second time disallowed by the Secretary of State. The confusion which this unsteady action caused in the finances can be easily imagined.

Again, this large sum was not spent in an economical way. Several instances of faulty construction—a case in which a building came down and a number of workmen were killed—cases in which soon after construction, the barracks were found not safe to inhabit have been recorded[3]; and of course this was followed by considerable additional expense. During the 14 years from 1861 to 1874, nearly £15 millions were spent on Military Works of all kinds, the greater portion of the expenditure being on

1. Cf. S. C. 1873, Q. 418.
2. S. C. 1873. Q. 1,203
3. Cf. S. C. 1872, Qs. 6520, 8087, also Fawcett pp. 151–152.

barracks. Thus at the cost of the poor Indian farmer, the English soldier lived in palatial buildings, when his comrade the Indian soldier lived in "low mud hovels (built by himself) without any ventilation, with thatched or hay roofs, and mud floor, with no furniture whatsoever, no lamp at night, and the places wet and damp in the rains," not to talk of the luxuries provided to his white friend such as, schools, libraries, reading rooms, bowling alleys, racket courts, baths, gymnasia, canteens and so on.[1]

The expenditure on military works of this kind continued during the second period. The average annual expenditure during the first period was a little more than a million £; in the second it was 1·1 m. Rx. But this did not suffice for the requirements of the Forward Policy which began in 1878. During the Afgan War, and after 1885 several military railways were built on the frontier, the expenditure on which was shown in the Railway Accounts. After 1885, special fortifications were undertaken on the frontier the expenditure on which was separately shown under the head "Special Defence Works." The total expenditure on works of this class from 1885 to 1898 was 4·7 m. Rx.

The Administrative Reports on Railways[2] are full of examples of the difficulties of building railways on the frontier. The area is barren and mountaineous. But the greatest difficulty was encountered in the frequent floods of the great river Indus and her tributaries. In spite of the great engineering skill employed in the building of these railways, instances of misdirected efforts in the construction of viaducts, tunnels and bridges are not few. The expenditure per mile was necessarily much more than on the other railways in the interior of the country, and the return from them was practically little. In spite of the large sums of money spent in this way it has been doubted by military authorities[3] whether the

1. *Cf.* S. O. 1873, Q. 5277.
2. Especially those of 1891, 1892 & 1893.
3. Cf. Hanna-Backwards and Forwards-Chs. 1 & 2.

military strength of India has materially increased. If the Old Indus Frontier had not been extended this expenditure would not have been necessary, and it is difficult to think of the success of an enemy through these wild and hilly tracts, where the British in spite of all their resources still find it so difficult to establish safe and easy communications.

Though the expenditure on Military Works during the third period remained almost the same as in the second, we notice a very great increase in recent years, particularly during the War and after. The average annual expenditure during the fourth period was 3·2 crores of Rs.; more recently it is varying between 4 and 5 crores. The scale on which the construction of Military Works is planned and sanctioned may be realised from the list in the footnote,[1] which contains the major works proposed to be constructed. The Inchcape Committee made the only recommendation

1 Description of Works.	Estimated cost. lakhs of Rs.	Sanctioned. lakhs of Rs.
New Cantonments	212	32
Officers' Quarters	112	
Accomodation for British troops ...	299	299
Accomodation for Indian troops ...	450	450
Offices for Northern & Western Commands.	76	
Offices and quarters for clerks ...	62	
Hospitals for British troops	145	
Hospitals for Indian troops	179	
Royal Air Force	61	61
Ordnance factories and depots ...	316	
Training and educational	170	
Water supplies	160	
Drainage and Sanitation	48	
Electrical installations	151	
Roads in cantonments	17	
Frontier roads	384	
Railways	75	
Various auxiliary and other services and miscellaneous	388	88
Total	33,00	9,30

(Taken from Inchcape Committee, Report, p. 53).

that was possible in this connection, that "in the present financial situation, the execution of a programme of this magnitude is wholly out of the question."

It is satisfactory to note, however, that the largest item in the programme is that of Rs. 4½ crores, chiefly for the reconstruction and improvement of lines for Indian troops, who were formerly required to build their own lines, receiving an annual hutting grant for the purpose.

The Inchcape Committee recommended a substantial reduction of 77 lakhs in the annual expenditure on Military Works.

(6). *Marine Services.*

The East India Company maintained a naval force for the defence of its possessions and for the prevention of any interference with its trade monopoly. The Indian Navy was frequently employed at a distance from the shores of India in the suppression of piracy and of the slave trade and also in regular warfare.[1] The Company received no payments from the British Treasury for these services.

The Indian Navy was abolished in 1862. It was converted into a non-combatant force, called the Royal Indian Marine. The Royal Navy undertook the general naval defence of India, the protection of trade, and the puttting down the slave trade on the Eastern coast. The Admiralty were not called upon to make any real sacrifice in the discharge of these duties, and they did not think it wise to ask for a contribution from Indian revenues.

In 1869, however, this question was raised. After some discussion, a contribution of £70,000 a year was levied on India. This was for the cost of the crews of six ships which were to be maintained for Indian purposes[2]. Of these, three were for service in the Persian Gulf.

1. Cf. W. C. Report, para, 309—China War, Borneo expedition, New Zealand War.

2. W. C. II p. 310.

In 1887, the number of ships was reduced to four, and accordingly the subsidy was reduced to £38,500; an annual payment of 5 per cent. for the cost of a vessel in the Persian Gulf was taken in addition to this.

The Treasury, however, objected to this contribution, as being very small. An Inter-Departmental Conference was held at the Foreign Office in 1890, and it was agreed that the Indian Government was to be consulted as to the number and class of ships required in the Persian Gulf and off the coasts of India "for Indian purposes"; when that number had been fixed, it would be arranged that the ships were not to be employed beyond certain defined limits, except with the consent of the Indian Government. They would be under the control of the Naval Commander-in-Chief, who was expected to comply with the wishes of the Indian Government, and India was to pay their whole cost, effective and non-effective.[1]

The meaning of the term "Indian purposes" created serious differences of opinion between the India Office on the one hand, and the Treasury and the Admiralty on the other. The India Office contended that these purposes were only the maritime police of the coast, and the repression of piracy, and of the local slave trade, whereas the Treasury and Admiralty maintained that the defence of Indian commerce on the high seas was included in them. The number of ships required according to the latter would be greater than according to the former.

This controversy lasted for four years during which India paid a naval subsidy on account, of £50,000. The question was at last submitted to the arbitration of Lord Rosebury, who gave the following award[2] in 1895:—

(1) "That the old Indian Navy did perform or co-operate in the performance of duties more extensive than are now admitted under the expression "Indian purposes", as limited in the India Office case.

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1. Ibid p. 374.
2. W. C. Report, para 312.

(2) "That this expression cannot be limited to merely maritime police and the repression of piracy, but must be held to include some portion, at any rate, of the duties devolving on the Royal Navy for the defence of India and the protection of trade in Indian waters.

(3) "That the transaction of 1862 represented at most a temporary waiver of the claim of the Imperial Government to a contribution from India in respect of the performance of these duties.

(4) "That in any case nothing then said or done could affect the right of the Imperial Government to raise such a claim on its merits at any subsequent period.

(5) "That the basis on which such a contribution should be calculated does not admit of a permanent definition, but should be settled between the Home and Indian Governments from time to time at fixed intervals of, say, 10 years."

In accordance with this award it was agreed that India should pay, in addition to direct local expenses of the squadron (£4,000) a contribution of £117,000 for 1895 and of £100,000 a year subsequent to that year up to 1900. The Indian Government insisted that a smaller force of smaller tonnage than what was fixed, was enough. In view of this, the Treasury gave up its claim of £183,000—arrears for the years 1891-1895. The Secretary of State despaired[1] of getting a more equitable arrangement by any means. The Welby Commission confirmed this arrangement, though the Government of India desired to reduce the subsidy to £50,000.[2] This payment of £100,000 a year is made till to-day.

The functions of the Royal Indian Marine have been thus described[3] :—

(1) The conveyance of troops in "Indian waters".

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1. W. C. Report, para 312.
2. Ibid, para, 315 ; F. S. 1897, p. 147.
3. Inchcape Committee, Report, p. 43.

(2) The maintenance of station ships, the tending of lighthouses in the Red Sea, the Persian Gulf and Burma, and the Marine Survey of India.

(3) The maintenance of the Bombay Dockyard and of all military launches.

(7). *The Royal Air Force.*

As in other countries, the expenditure on this item is a recent addition to the Military Budget in India. In recent years more than a crore of rupees has been spent on this force. In view of the fact that the potentialities of the Air Force in India are yet being proved, and that it is possible in future to introduce economies in expenditure on ground troops with the extended use of the Air Force, the Inchcape Committee made no recommendations by way of retrenchment under this head.

CHAPTER VII

CIVIL EXPENDITURE.

The Civil Expenditure of the Government of India is generally shown under two main divisions—(*a*) Salaries and expenses of Civil Departments and (*b*) Miscellaneous Civil Charges. The former includes the expenditure on General Administration, Law and Justice, Education, Sanitation and similar other duties undertaken by the State either for the maintenance of law and order, or for the benefit of the people. The latter includes expenditure chiefly on pensions and furlough allowances, stationery and printing and miscellaneous charges. The item "exchange" is also included in this division.

A perusal of the Financial Statements of the Government of India since 1860, shows that the items of expenditure included in each of these two main divisions are steadily growing in number, but that there seems to be no principle on which this classification has been arranged. We do not find the items of civil expenditure classified either on the principle of the functions of Government, or on that of the benefit conferred on different classes of citizens. In the first division, expenditure on the maintenance of law and order, is mixed up with beneficial expenditure like that on education, sanitation, etc. In the second division, the expenditure on pensions is mixed up with such widely different things as stationery and printing, and exchange. Any attempt at re-classifying the items of expenditure together with the necessary statistical details during all these years, would involve considerable confusion. It is better, therefore, to take the most recent classification of these two main heads of expenditure, and to discuss each of the items as they appear in the Financial Statements.

Because of the want of uniformity in the accounts since 1860, the detailed figures for each of these items

are not available. Besides, the amount of expenditure involved in some of these items is comparatively small. In order, however, to give a historical idea of the growth of expenditure under each of these items, we shall select certain years, representative of the four periods into which we have divided our financial figures as a rule. We find, however, that the figures before 1875 are given on an entirely different system of classification which makes it difficult to compare the figures before 1875 with those of succeeding years, though in a few cases, it is possible to give comparable figures for the preceding years. Even the totals of the two main divisions of civil expenditure during these early years are not available in the form we require for comparison; we have, however, a total figure for civil expenditure in 1861, which includes the expenditure on all civil items, irrespective of the two main divisions. For the sake of comparison, the figures of the selected years have all been reduced to lakhs of Rs.

The following table shows the progress of the total net expenditure under the two main divisions, the details of which are discussed below:—

(In lakhs of rupees).

Year.		Civil Departments.	Miscellaneous Civil charges.	Total.
1861	...	—	—	858
1875	...	904	309	1,213
1885	...	1,081	356	1,437
1898	...	1,400	472	1,872
1813	...	2,475	690	3,165
1920 (a)	...	4,140	40	4,180

(a) As most of the items included in Civil Expenditure have been provincialised since the Reforms, the figures after 1920 are not comparable with those given above. The recent figures have been shown in connection with each item separately.

(A) SALARIES AND EXPENSES OF CIVIL DEPARTMENTS.

(1) *General Administration.*

Year.	1875	1885	1898	1913	1920	1924
Lakhs of Rs.	146	173	196	297	483	165

This head provides for the pay of the chief officers of Government—the salaries of the Governor-General, of

the heads of provinces, their staff, and other charges; the expenses of the executive and legislative councils; of secretariats, of revenue boards and commissioners, of account and audit offices, of the Paper Currency Department, and allowances to banks for management of debt. This item also includes the cost of the India Office Establishment and charges connected with it in England. The expenses of the frequent migrations of the Supreme and Provincial Governments to hill-stations are included in it.

The introduction of the Morley-Minto reforms, and the consequent increase in the cost of the Indian Legislative Bodies etc. accounts for the increase in 1913; the additional expenditure during the War, on account of high prices, the creation of new departments like the Munitions Board, the expenditure due to the various inquiries made since August 1917, regarding the Reforms—are among the main causes which account for the great increase in expenditure for 1920. On account of the separation of the provincial accounts from the central accounts since 1921, the figure for 1924 shows the expenditure under General Administration in the Central Government only. It includes, however, the cost of the India Office and the High Commissioner. These latter items have been discussed in their proper places in the chapter on "English Charges".

(2) *Audit.*

Year	1924
Lakhs of Rs.	85

Before the Reforms, the expenditure under this head was included under General Administration. It is now shown separately. The Inchcape Committee found that part of the expenditure under this head is due to work which under the Reforms, falls on the Provincial Governments, and should therefore be debited to their accounts.

(3) *Law and Justice.*

Year.	1875	1885	1898	1913	1920	1924
Lakhs of Rs.	251	277	243	510	780	12·5

This item includes the cost of the administration of justice, that is, of all the civil and criminal courts of India. It also included the cost of jails and convict settlements up to 1920, which is separately shown since 1921. The increasing facilities for the administration of justice, the growth in the work of the law courts, and the higher cost of the increased establishments, explain the growth of expenditure under this item. The great drop in 1924 in this expenditure is obviously due to the fact that this item is now a provincial charge. It may be added that by means of fees on judicial stamps, and by direct fees on litigation, the administration of justice is made almost self-supporting.[1] Tables are given in the appendix showing the details of the expenditure and departmental receipts under this head.

The present judicial system in India which dates from 1861, when the Indian High Courts Act was passed, may be thus briefly described. The Supreme Courts in India are the High Courts of Bombay, Madras and Bengal which were first to be established, and of Allahabad, Lahore, Patna and Dacca, the last two of which are of recent origin. Corresponding to these, there are Chief Courts at Nagpur and Rangoon. The High Courts derive their authority from the Crown, the Chief Courts from the Governor-General in Council. In other provinces, the Judicial Commissioner is the highest judicial authority.

Below these courts are the lower civil and criminal courts in the districts. The former are presided over by the District Judge and his subordinate judges and munsifs; the latter by the District Magistrate and his

1. See remarks on this point in the chapter on Stamp Revenue.

subordinates who are usually revenue officers in the district. Important criminal cases are committed to the Sessions Courts. Every province is divided into certain sessions divisions presided over by a Sessions Judge who is also a District Judge. The Sessions Judge is assisted by assessors or juries, the verdict of the latter being binding on the Judge unless he refers the case to the High Court.

In the Presidency towns of Madras, Bombay and Calcutta, we have the Courts of Small Causes for smaller civil suits, and also the courts of Presidency Magistrates for smaller criminal suits. Important criminal cases in these towns are committed to the Sessions, which consists of a Judge of the High Court on the original side exercising the criminal jurisdiction of the High Court.

Cases relating to revenue are tried by the Revenue Courts which are presided over by the District Collector. Appeals from these courts go either to the Board of Revenue or to the superior revenue authority.

The Judicial Committee of the Privy Council is the final Court of Appeal for India as for other parts of the Empire. The conditions under which appeals can be made to the Privy Council are laid down in the charters of the High Courts, and in the Code of Civil Procedure.

It would be beyond the scope of this work for us to enter into the controversies relating to the important questions of the preferential treatment to the European British subject in the administration of justice, and of the separation of the executive and judicial functions, which are combined in the district officers.

Jails :—As said above, up to 1920 the cost of jails was included in the item " Law and Justice ". For 1924 the expenditure on jails by the Central Government is estimated to be 40 lakhs of rupees. The Prisons Act of 1894 governs the administration of jails in India. There

are three classes of jails :—(1) the large central jails ; (2) the district jails at the headquarters of each district ; and (3) subsidiary jails. Jail administration is generally in charge of medical officers. In the large central jails, there are also officers to supervise jail manufactures. Juvenile offenders under 15 years of age are sent to Reformatory Schools till they reach the age of 18. These schools are in the charge of the Education Department, and are intended to provide industrial education, and help the boys to get employment in course of time. The reforms suggested by the Jail Commission of 1919 have not yet been introduced for want of funds.

(4) Police.

Year ...	1875	1885	1898	1913	1920	1924
Lakhs of Rs. ...	230	250	380	690	1160	89

For the maintenance of peace and order, closely connected with the expenditure on Law and Justice, is that on Police. It may be noted however, that the expenditure on Police has increased five-fold since 1875, whereas the expenditure on Law and Justice (including Jails) has increased only three-fold during the same period, and the total figure for the latter is nearly three-fourths that of the former in 1920. The small figure for 1924 is due to the fact that police expenditure has been provincialised under the Reforms.

The recommendations of the Police Commission of 1860 form the basis of the organisation of the Police Department till to-day. Among other things the Committee recommended (1) " the establishment of a well organised and purely civil constabulary, supervised by European officers, and capable of carrying out all ordinary civil duties including the provision of guards and escorts;" and (2) the retention of the village police, which was to be brought into direct relationship with the general constabulary.

There is an Inspector-General of Police in each Province assisted by deputies is some cases. Below him are

the District Superintendents who are responsible for the discipline and internal management of the police force. In matters connected with the preservation of peace, and the detection and suppression of crime, the District Superintendent is subordinate to the District Magistrate. The district is divided into sections in charge of Inspectors and Sub-Inspectors. In the villages there are the *chowkidars* or watchmen who are generally under the control of the village headman.

In the Presidency towns and in Rangoon a separate force under a Commissioner is organised. For the maintenance of law and order on the railways and for watch and ward over railway property, the railway administrations provide for a separate force called the Railway Police (nearly 20,000) for emergencies. This is employed at present chiefly in the frontier provinces.

The "Thagi and Dakiti Department" of early times meant to suppress highway robbery was transformed in 1904 into the Criminal Intelligence Department. The object of this department is "to collect and communicate information regarding such forms of organised crime as are committed by offenders operating along the railway system and by criminal tribes, wandering gangs, organised dacoits, professional prisoners, forgers, coiners, and the like, whose operations extend beyond the limits of a single Province."[1] In its actual working this department has earned great notoriety as a powerful instrument in the hands of government in its campaign against political agitators. The most innocent as well as the most respected men have not been exempt from the annoying watch of the C. I. D.

(5) *Ports and Pilotage.*

Year	1924
Lakhs of Rs.	25

Till the beginning of this century, the expenditure under this item was mixed up with that shown under

1. Imperial Gazetteer, Vol. IV. p. 395.

"Marine," which item formed a part of Civil Departments. A portion of this expenditure was obviously incurred for military purposes, but the old classification was not improved upon, till the beginning of this ceutury, as referred to above. In recent years, the item "Marine" is shown as a sub-head under "Military Services," and the expenditure on things like pilot services, light houses, port establishments, marine survey and shipping offices is shown under "Ports and Pilotage", an item in "Civil Departments." On account of these reasons, it is not possible to compare the figure under this item during the different years. It would be more correct to deduct the military portion of the expenditure shown under this head in the earlier years from the total civil expenditure, but as the amount in question is comparatively small, it will not affect the total to any appreciable extent.

(6.) *Ecclesiastical.*

Year	1875	1885	1898	1913	1920	1924
Lakhs of Rs.	16	16	17	19	25	33

This item may also be said to have been wrongly placed under Civil Departments. The Government of India are supposed to maintain a strict neutrality in so far as religious questions are concerned. Without going into the details of the early controversy regarding this expenditure, we may say in brief that the Ecclesiastical Department is maintained chiefly for the service of the British forces in the districts where they are located. Chaplains are also appointed in cathedral towns in the headquarters of Government, and some form of financial assistance is given to the clergy at other places. After surveying the history and principles regarding this question, Sir Purshottamdas Thakordas in a note to the Report of the Inchcape Committee comes to the conclusion that "no state aid is in principle necessary in India for the religious ministrations of any community." From what we have said, it follows, therefore, that the expenditure under

this item, if it is to be incurred at all, should properly be included in the cost of defence. In view of the fact, that the comparatively small expenditure under this item will not materially affect the totals either of civil or military expenditure, we do not propose to make the necessary adjustments implied in the above remarks.

(7) *Political.*

Year	1861	1875	1885	1898	1913	1920	1924
Lakhs of Rs.	24	43	115	90	173	346	322

"The expenditure classified as Political is of a heterogeneous character, including diplomatic and consular charges in Persia, at Kabul and elsewhere, expenditure on the upkeep of Residencies and Political Agencies in Indian States, the cost of forces of a quasi-military or police character engaged on watch and ward on the frontiers and, in some of the frontier areas expenditure which in Indian Provinces would be classified under General Administration ; also charges in respect of subsidies, trade agencies, refugees and state prisoners, and on the lighting and buoying of the Persian Gulf."[1] In former years, the political subsidies to the Amir and other chiefs on the frontier, a portion of the cost of the Persian and Chinese consular service, a part of the subsidy to the Euphratis and Tigris Navigation Company etc. were included in this item.

Aden:—The expenditure on Aden is included in this item. This is chiefly of a military character, and was borne by India before 1900. Since then, in accordance with the recommendations of the Welby Commission, the British Government contributes towards the expenditure on Aden. During the War, this expenditure increased considerably, involving greater burdens to India, and the Inchcape Committee recommend, that the present arrangement should be brought in a line with the

1. Inchcape Committee, Report, p. 152.

Welby Report, which recommended that half the military expenditure in Aden should be borne by the British Government.[1]

Persia:—The political expenditure in Persia which is also shared by the Indian and Imperial Exchequers now involves, on account of the War, greater burdens to India than contemplated by the Welby commission. The Inchcape Committee has recommended a decrease in India's liabilities on this account.[2]

From what we have said above, it is evident that the greater portion of the expenditure under this head is directly or indirectly connected with the question of the defence of India. It should, therefore, be included in the military expenditure instead of in the civil. The Welby Commission adopted this procedure.[3] As in the preceding cases, it is not possible to make the necessary adjustments in detail.

(8) *Scientific Departments.*

Year	1875	1885	1898	1913	1920	1924
Lakhs of Rs.	35	40	45	59	107	79

These include the Survey of India, Meteorology, Geological, Botanical and Zoological Surveys, Archælogy, Mines, etc. This item was formerly called. "Scientific and Minor Departments", and included in addition to those enumerated above the cost of the Commercial Intelligence Department, the periodical Census, Emigration, etc. These latter items are now (since the Reforms) separately shown under another sub-head, "Miscellaneons Departments".

The Commercial Intelligence Department was subdivided in 1914 into (1) the Bureau of Commercial Intelligence and (2) the Directorate of Statistics. Recently

1. Ibid, p. 156.
2. Inchcape Committee, Report, p. 157.
3. Welby Commission, Report, para, 152.

on account of the necessity for retrenchment the activities of the former have been curtailed and the two have again been amalgamated.

(9). *Education.*

Year	1861	1875	1885	1898	1913	1920	1924
Lakhs of Rs.	34	87	104	137	439	711	32

This expenditure has been provincialised since the Reforms; hence the small figure in 1924 in the Central accounts. The above figures show the meagre efforts made by the State to spread the light of education in the ignorant and poor cottages of India. The state expenditure on education per head of population amounted to—

As.	ps.		
0	9	in	1875
0	10	in	1885
0	11.3	in	1898
2	10	in	1913
4	7	in	1920

This shows that till the beginning of this century, the state expenditure on education was less than one anna per head of population. The late Mr. Gokhale's efforts in this connection appear to be the chief cause which accounts for the increase in 1913, and the impetus then given seems to have been kept up, though the increase in 1920 is more apparent than real, because of the fall in the value of money.

No systematic attempts were made by the Government of India till 1854 to formulate an educational policy. The famous despatch of Sir Charles Wood of this year accepted the responsibility of the state in educating the people, and led the way to the establishment of Departments of Public

Instruction and Universities. Greater attention was, however, paid to higher education compared with primary education. This defect was noticed by the Commission of 1882 from which time greater attention was given to the needs of primary education. The next landmark in educational policy is the Universities Commission of 1902, whose recommendations were the basis of the Indian Universities Act of 1904. A few years after in 1910 a separate Department of Education and Sanitation was created in the Government of India. The progress in education and particularly in literacy was however far from satisfactory, and to make up for this defect the late Mr. Gokhale introduced his famous resolution in favour of free and compulsory primary education in the Imperial Council in 1910. In spite of the various safeguards attached to Mr. Gokhale's resolution, it was opposed by Government chiefly on financial grounds, and was defeated by the official majority. In their resolution of 1913, however, the Government of India practically accepted the principle of Mr. Gokhale's resolution. This has been followed by the passing of a bill in favour of free and compulsory primary education under certain conditions in Bombay. Other provinces are following this example. The problem of University education is also receiving attention of late; several new universities have been started in the north of India; and the Bombay Government have appointed a committee to suggest reforms in the Bombay University.

Considering the financial aspect of education in India, we may note that the expenditure for this purpose is provided from (1) Imperial funds, (2) Provincial funds, (3) Local Board funds which are chiefly derived from local cesses on the land, (4) Municipal funds, (5) fees, and (6) donations. When we refer to state expenditure on education, we mean the first three sources less the fees received by Government from the students.

(*10 and 11*). *Medical and Public health.*

In lakhs of Rs.

Year	1875	1885	1898	1913	1920	1924
Medical	63	69	153	188	227	29
Public Health	...	...	...	...	115	14
					342	43

Till recently, these two items were shown in one under the head "Medical". In view of the necessity for retrenchment the Inchcape Committee has recommended the re-amalgamation of these two departments. The small figures for the year 1924 show that these departments have been provincialised.

The insanitary condition of many parts of India till to-day is well known. The existence of epidemics and malaria in certain parts is a normal feature. The cry for greater and better sanitary facilities and medical aid is as intense in India as it is for better and more facilities for education.

Though in the early years, the expenditure under this head was smaller than under Education, in 1898 it shows an increase above the latter; the public demand for greater expenditure on Education and Sanitation in the early years of this century is reflected in the greater expenditure on the former head, but the latter seems to have lagged behind, the expenditure in 1920 on Medical and Public Health combined being less than half that on Education.

The functions of the Medical and Sanitary Department include the charge of hospitals, dispensaries and lunatic asylums; vital statistics; general sanitation and vaccination; the health of ports and shipping; medical, bacteriological and other miscellaneous matters.

The Medical Department consists of five kinds of officers[1] :—The Indian Medical Service (known as the

1. A complete re-organisation of the Medical Services has been proposed by the Lee Commission.

I. M. S.), civil and military Assistant Surgeons, and civil and military hospital assistants. Members of the I. M. S. which is primarily a military service are commissioned officers of the army. They are mostly Europeans being recruited in England. They are generally in charge of the Indian troops; the English troops are served by officers of the Royal Army Medical Corps (R. A. M. C.). The assistant sergons are generally medical graduates of Indian Universities, and the hospital assistants or sub-assistant surgeons are trained in Government medical schools numbering more than 20 in all India.

The Director-General, Indian Medical Service was also the Sanitary Commissioner with the Government of India till 1904, when the latter office was separated. Sanitary work in India first received attention in 1864 as a result of the investigations of a Royal Commission into the sanitary conditions of the army. Sanitary boards were appointed in different provinces, but the progress was slow.

As a greater population of India lives in villages, the problem of rural sanitation is very important. This work is mostly in charge of Local Boards or local sanitary committees, carried out under the general supervision of the sanitary department. Though some progress has been made, it must be admitted that the sanitary condition of the villages is far from satisfactory,[1] partly due to inadequate expenditure by Government for this purpose, and partly to the ignorance and apathy of the people themselves.

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1. This does not imply that sanitation in cities is satisfactory. Even in a city like Bombay, sanitary facilities are most inadequate. The recent report of Sir Alexander Houston and Col. W. W. Clemensha on the water supply of Bombay shows that a population of 12 to 13 lakhs is supplied with water which is "quite unwholesome and dangerous to life," and that too in a country where "carriers of disease are notoriously prevalent."

(12). *Agriculture.*

Year	1913	1920	1924
Lakhs of Rs.	70	143	27

Inspite of the overwhelming importance of the Agricultural Industry in India, the laissez fairre attitude of the Government of India, imported from England, affected this as other industries in this country. The necessity of state action in the matter of agricultural improvements received a faint recognition in 1871, with the creation of a separate department for Land Revenue and Agriculture which was however abolished in 1879 on financial grounds. The reconstitution of the department on the recommendation of the Famine Commission in 1880 proved of little value, as the activities of the department were restricted to the improvements of Land Records and not the land. Dr. Voelcker's report on agricultural improvement, 1889-90, for the first time laid down the definite lines of policy, which the state ought to follow in this connection. His recommendations were, however, not fully adopted till the beginning of this century, when the Provincial Departments of Agriculture were created with an Inspector-General of Agriculture as the technical adviser of the Government of India. The agricultural experts are further constituted into a board of agriculture, which meets at intervals to discuss agricultural questions. The above remarks explain the fact that we have separate figures of expenditure under the item "Agriculture" only in recent years. It may be noted that the expenditure under this head has been provincialised since the Reforms.

(13.) *Industries.*

1924	Rs. 81,000

The development of industries is a provincial transferred head, and the central expenditure under this item is therefore very small. It may be noted, however, that the remarks made above in connection with the attitude of the state

towards agricultural improvements apply with much greater force in the case of industrial improvements.[1] The creation of Departments of Industries in the provinces and other recent activities of the Government inthis matter may be attributed chiefly to the recommendations of the Industrial Commission (1918), the necessity of starting war industries by the state during the war, and the impetus given by the recommendations of the Fiscal Commission followed by the inquiries of the Tariff Board. The Depart ments of Industries have, however, not yet shown any tangible proofs of success. The Bombay Legislature decided this year to abolish the Provincial Department of Industries.

(14.) *Civil Aviation.*

1924 Rs. 22,000.

The expenditure under this head is obviously of recent origin. In 1921 it amounted to nearly two lakhs of rupees. On account of the want of sufficient amount of work for the Chief Inspector of Civil Aviation the Inchcape Committee has recommended that his duties be transferred to a qualified officer of the Air Force. The hundred aeroplanes which the Government of India received from the British Government after the War, will not involve material expenditure under this head in future, because some of them have been made over to the Provincial Governments and Indian princes, some of them have been returned, and it is proposed that the rest may be made over to the Air Force. The proposed Cairo-Karachi rôute of which the Government of India has undertaken a liability of half the capital cost will involve some expenditure in future. With the development of Civil Aviation, it is likely that the expenditure under this head will increase in the near future.

1. See the chapter on Customs Revenue generally on this point.

(15.) *Miscellaneous Departments.*

1924 Rs. 27 Lakhs.

As pointed out under item (7) these departments were grouped together with Scientific Departments, the item being called Scientific and Minor Departments. The more important details in connection with these departments have been already discussed under item (7.)

The office of the Indian Trade Commissioner in London whose expenditure was shown under this head has been abolished, and his duties have been handed over to the High Commissioner. The Inchcape Committee recommended the postponement of the expansion of the Indian Stores Department, the expenditure on which is shown under this head. In order, however, to make the new stores purchase policy effective, the necessary expansion is being carried out.

(B) MISALLANEOUS CIVIL CHARGES.

(1) *Famine Relief and Insurance.*

1924 Rs. 14,000.

The expenditure under this head is a provincial charge under the Reforms. The Central expenditure being ordinarily very small is grouped together under this division. Up to 1920, however, the Central Accounts gave the details of Famine Relief and Insurance under a separate main head. This has been discussed in a separate chapter.

(2) *Territorial and Political Pensions.*

Year.	1875	1885	1898	1913	1920	1924
Lakhs of Rs.	81	65	42	31	28	30

These consist of pensions and allowances to Indian princes and chiefs in accordance with treaty arrangements, when their territories were taken over. They

are generally personal allowances ; only a part s allowed to the heir on special consideration. This ex plains why it is a diminishing charge.

(3) *Supeannuation Allowances and Pensions.*

Year.	1861	1875	1885	1898	1913	1920	1924
Lakhs of Rs.	70	130	250	370	480	440	299

The charge for pensions granted since 1st April 1921, is divided between the Governments—Central or Provincial, according to the length of service which the officer in question had put in under each. Before this, however, the sterling pensions were debited to Central Accounts, and the rupee pensions to the province, where payment was made. Besides, as in other cases, the Central Accounts showed the total of all pensions paid which is not the case since the Reforms. On account of this, the figures after 1920 are not comparable with those of preceding years.

The great increase in this charge is very remarkable. Comparing the average figures for the different periods[1], we find that the expenditure under this head increased by more than a crore of rupees during 1898 to 1920.

Part of these pensions is paid to: Indian officers in India, part is paid to European officers "other than covenanted civil servants and medical officers," and a greater portion is paid to covenanted civil servants, to their families and to medical officers.

Members of the I. C. S. are entitled to a pension of Rs. 10,666⅔, subject to a minimum of £ 1000 if drawn in England.[2] Till 1919, all members of the service, except

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1 in lakhs of Rs.

2nd period	3rd period	4th period.
360	405	470

2. This means that when the rate of exchange is less than 2sh. a rupee, India is a great loser. When the exchange is at 1s. 4d. as at present, the rupee equivalent of the pension is Rs. 15,000 which is much more than the amount paid in India.

Members of Council were required to contribute 4 per cent. of their pay towards this pension. Such a deduction is still made from the pay of members of the I. C. S., but the money is credited to a provident fund for their benefit on retirement.

Most of these pensions are fixed in sterling and are paid in England. Whenever, therefore, the rupee-sterling exchange goes against India as in the second period and in recent years, the Government of India has to find more rupees to meet these pension charges than before. Besides in the case of rupee pensions transferred for payment to England, the Government of India sometimes give favourable rates of exchange with consequent loss to themselves, when the rupee is falling compared to the sterling[1].

It is evident that the large and growing expenditure under this head, as in similar other cases, would have been materially reduced if the people of the country had been employed to a greater extent in the higher services.

(4). *Stationery and Printing.*

Year	1875	1885	1898	1913	1923	1924
Lakhs of Rs.	42	45	63	95	189	51

With the increase in the business of Government this charge would naturally have a tendency to increase. We notice some increase in the net charge on this account.

1. In the second period when exchange was falling a privileged rate of 1sh. 9d. was allowed in such cases. This had very serious results to the Indian taxpayer. If such a civil servant was entitled to a pension of Rs. 2,500 a year he would receive that amount if he stayed in India. But if he went to England this sum would be converted into sterling at 1sh. 9d, that is, it would be £218-15-0. If the current rate was 1sh. 4d, this amount would cost Rs. 3381 instead of Rs. 2500 or Rs. 1481 more than his due. It was natural that "the grant of the improved rate was followed by an increase in the number of pensioners. Thus the measure not only raised the amount of sterling payable in respect of each pension, but it stimulated also retirements on pension and the transfer of pensions from India to England." (W. C. Report, para 179).

The Welby Commission pointed out that the charges under this head were very similar in amount in England and India.[1] They said that though the charge that Governments and public bodies were extravagant in this matter, was to a large extent true, the expenditure in India was not excessive, if the extent of the territory and the numbers governed be considered. Two things must be pointed out in this connection. The policy of purchasing stores in England has been discussed in another chapter. There was some room for economy by purchasing stores for stationery and printing in India, to a greater extent than was the practice.

Apart from the requirements of Government departments in this matter, the Government in England serves a very useful purpose by publishing official literature in a cheap form and by making it easily available to the public. Official publications in India are very dear for the average Indian; the facilities for obtaining them are very limited. There are many cases in which it is difficult to get them. Besides, these publications are usually written in English, which is understood only by a very small percentage of the people. On account of these causes the use of such publications by the people is very rare. The necessary improvements in this matter ought to be made even at some expense.

The Inchcape Committee recommended a saving under this head, especially in connection with the expenditure on printing presses, based on the inquiry made by Mr. F. P. Ascoli who observed that "the whole of the printing system is uncontrolled and wasteful. The presses are antiquated and organised on an unsound basis, there is no control or attempt to control printing work generally, while one press is idle and cannot keep its men employed, another may be worked overtime."[2]

1. Cf. W. C. Report, para 162.
2. Inchcape Committee, Report, p. 254.

(5) *Miscellaneous.*

Year ...	1875	1885	1898	1913	1920	1924
Lakhs of Rs. ...	18	—3	—33	37	—1,038	108

This item includes all those charges and receipts which do not fall under other main heads. We see in some years there was an excess of receipts over charges under this item. The large excess in recent years is accounted for by the adjustments due to the War, and by the crediting of the freight tax to this head.

(6) *Exchange.*

Year ...	1875	1885	1898	1913	1920
Lakhs of Rs. ...	5	—26	—4	—18	323

The confusion caused in Indian Financial Statistics by this item, and the changing treatment which it has received has been explained in detail in an earlier chapter. During periods of normal exchange, however, this item serves the useful purpose of recording the necessary adjustment due to the small variation in the market rate of exchange as compared with the account rate.

(7) *Civil Furlough and Absentee Allowances.*

Year ...	1875	1885	1898	1913	1920
Lakhs of Rs. ...	25	26	39	68	105

The idea underlying the furlough allowances is that European officers serving in a tropical climate should be encouraged to recruit health by taking occasional leave in England. The amount of furlough generally allowed to civil officers is one-fourth of their active service up to a maximum of six years. During the period of the furlough as a general rule, half the pay is given. The charge under this head is mostly paid in England and in periods of falling exchange, the officers are given a further concession in the shape of a favourable rate of exchange at which these allowances are given. It is evident that this charge could

be reduced to an insignificant figure if the people of the country are employed in greater numbers in the higher services.

In addition to this all officers have the privilege of getting leave from active service which usually works out at about one month for each year of service, subject to a maximum of three months at a time. In case of such privilege leave or casual absence, full pay is granted.

It is obvious from the above that on account of the leave and furlough privileges which the officers enjoy, the Government has to keep in reserve a larger number of officers than actually required at any period, with consequent additional cost to the tax-payer.

Employment of Foreign Agency.

In the foregoing analysis of the expenditure on the main civil heads, we have pointed out in detail how in some cases the expenditure has been more than necessary, and how in others it has been much less than required. Among the causes of the increase in the total expenditure under the main heads discussed in this chapter may be mentioned :—(1) increase in population ; (2) vastness of the territory to be administered ; (3) improvement in the administrative machinery, and consequent addition to the staff ; (4) the creation of new departments already referred to ; (5) increases in pay and allowances due to high prices and such other causes ; and (6) the employment of foreign agency. It is this last mentioned cause which needs to be discussed at some length.

The benefits of the various civil departments would have been purchased at a cheaper cost, or larger benefits would have been derived for the same cost, but for the fact that a very large percentage of the superior posts in the different services went to Europeans whose emoluments were fixed on a costly scale. The policy of

excluding[1] Indians from high offices under the state led

1. The Act of 1834 contains this provision :—"And be it enacted, that no native of the said territories, nor any natural born subject of His Majesty resident therein, shall, by reason only of his religion, place of birth, descent or colour, or any of them, be disabled from holding any place, office, or employment under the Company".

The Queen's proclamation in 1858 said—"And it is our further will that, so far as may be, our subject, of whatever race or creed, be freely and impartially admitted to offices in our service, the duties of which they may be qualified, by their education, ability, and integrity, duly to discharge".

Lord Lytton referring to this said in 1878—"The Act of Parliament is so undefined, and indefinite obligations on the part of the Government of India towards its Native subjects are so obviously dangerous, that no sooner was the Act passed than the Government began to devise means for practically evading the fulfilment of it. Under the terms of the Act, which are studied and laid to heart by that increasing class of educated Natives whose development the Government encourages without being able to satisfy the aspirations of its existing members, every such Native, if once admitted to Government employment in posts previously reserved to the covenanted service, is entitled to expect and claim appointment in the fair course of promotion to the highest post in that service. We all know that these claims and expectations never can or will be fulfilled. We have had to choose between prohibiting them and cheating them, and we have chosen the least straightforward course. The application to Natives of the Competetive examination system—as conducted in England and the recent reduction in the age at which candidates can compete are all so many deliberate and transparent subterfuges for stultifying the Act, and reducing it to a dead letter. Since I am writing confidentially, I do not hesitate to say that both the Governments of England and of India appear to be, up to the present moment, unable to answer satisfactorily the charge of having taken every means in their power of breaking to the heart the words of promise they had uttered to the ear." quoted by Dadabhai Naoroji, Poverty and un-British Rule in India, pp. 317-318.

to two evils: the first was a monetary loss, the second and perhaps greater was the loss of all administrative talent and experience.[1] At the end of their period of service, the English officials carried with them their experience in Indian administration. The presence in other countries of such experienced officials undoubtedly becomes a source of inspiration and guidance to the rising generation. The people of India were first prevented from gaining this experience, and then told that they were unfit, because they had no experience.

It is a sad commentary on the effects of British rule in India for the authors of the Montagu-Chelmsford Report to have admitted that "it is a great weakness of public life in India to-day that it contains so few men who have found opportunity for practical experience of the problems of administration."[2] It was in order to remove this stigma that "in the forefront of the announcement of August 20 the policy of the increasing association of Indians in every branch of the administration was definite-

1, Cf. "The excessive costliness of the foreign agency is not however, its only evil. There is a moral evil, which, if anything, is even greater. A kind of dwarfing or stunting of the Indian race is going on under the present system. We must live all the days of our life in an atmosphere of inferiority, and the tallest of us must bend in order that the exigencies of the existing system may be satisfied. The upward impulse, if I may use such an expression, which every school boy at Eton or Harrow may feel, that he may one day be a Gladstone, a Nelson, or a Wellington, and which may draw forth the best efforts of which he is capable, that is denied to us. The full height to which our manhood is capable of rising can never be reached by us under the present system. The moral elevation which every self-governing people feel cannot be felt by us. Our administrative and military talents must gradually disappear owing to sheer disuse, till at last our lot is stereotyped, as hewers of wood and drawers of water in our own country."—Mr. Gokhale to the Welby Commission, Vol III, Q. 18,331.

2. Report, para, 313.

ly placed."[1] The Report of the Public Services Commission of 1912 which was signed a few months after the outbreak of the War was not published for two years. By the time it was published, it was criticised as wholly disappointing and obsolete. Without going into the details of the Commission's recommendations, which were supposed to be the basis of future policy, we may note the principles laid down for future guidance by the Montagu-Chelmsford Report. They are[2] :—

"Any racial bars that still exist in regulations for appointment to the public services to be abolished.

"In addition to recruitment in England, where such exists, a system of appointment to all the public services to be established in India.

"Percentage of recruitment in India, with definite rate of increase, to be fixed for all these services.

"In the Indian Civil Service the percentage to be 33 per cent. of the superior posts, increasing annually by $1\frac{1}{2}$ per cent. until the position is reviewed by the commission (paragraph 55).

"Rates of pay to be reconsidered with reference to the rise in the cost of living and the need for maintaining the standard of recruitment. Incremental time-scales to be introduced generally and increments to continue until the superior grade is attained. The maximum of ordinary pension to be raised to Rs. 6,000, payable at the rate of 1s. 9d to the rupee, with special pensions for certain high appointments. Indian Civil Service annuities to be made non-contributory but contributions to continue to be funded. Leave rules to be reconsidered with a view to greater elasticity, reduction of excessive amounts of leave admissible, and concession of reduced leave on full pay. The accumulation of privilege leave up to four months to be considered.

"A rate of pay based on recruitment in India to be fixed for all public services but a suitable allowance to be granted to persons recruited in Europe, or on account of qualifications obtained in Europe, and the converse principle to be applied to Indians employed in Europe."

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1. Ibid. 2. Report, paras 315–322.

In the recommendations of the Public Services Commission of 1912-15, and in those of the Montagu-Chelmsford Report, which form the basis of the present policy of the Government of India, an entirely erroneous point of view has been taken, namely, the question as to what are the means for extending the employment of Indians in the superior posts. In the words of Justice Abdur Rahim " the proper standpoint which alone in my opinion furnishes a satisfactory basis to work upon, is that the importation of officials from Europe should be limited to cases of clear necessity, and the question therefore to be asked is in which services and to what extent should appointments be made from England. "

The appointment of the Lee Commission against the wishes of the Assembly, and the agitation in and out of the Legislature in favour of a rapid Indianisation of the services show the attitude of the Government on the one hand, and the intensity of public opinion on the question on the other. So long as the proper standpoint, referred to above from which alone this question ought to be considered both on financial and political grounds is not taken, the final solution will be far from realisation.

Lee Commission's Report.

With the irresistible force of political evolution in India the members of the Anglo-Indian bureaucracy find that it is no longer possible to exclude Indians from higher appointments in the Public Services on the one hand, and that it is necessary for them to serve under Indian Ministers supported by popular legislatures on the other. Some of the European members of the services have found this gradual diminution of their bureaucratic power uncongenial and have retired on proportionate pensions. Others have however shown greater tenacity, and by means of organised agitation have succeeded not only in getting the Lee Commission appointed against the wishes of the Assembly,

but in getting the Commission to recommend substantial concessions in their favour.

According to the Lee Commission, the All-India Services employed in reserved fields of administration are to be appointed and controlled by the Secretary of State; their position is to be safeguarded by a Legal Covenant enforceable in a civil court, and by the Public Service Commission[1], to whom they can appeal in matters of discipline even against the decision of the Provincial and Imperial Governments; and when the field of service for which they have been recruited is transferred, they are to have the option (a) to retain their All-India status, (b) to waive their contracts with the Secretary of State and to enter into new contracts with the Local Governments concerned, or (c) to retire on proportionate pensions.

These recommendations are obviously intended to retain the irresponsible character of the Services hitherto existing, and to make them independent of the control of Indian Ministers and popular legislatures, now and hereafter.

Not satisfied with the security of power and position assured to the Services in this way, the Commission has recommended large financial concessions for the European members of the Services involving a burden of 1¼ crores of rupees a year to the taxpayer. The basic pay recommended by the Islington Commission is to remain with some exceptions, but the overseas pay granted to officers of non-Asiatic domicile is to be substantially increased in certain years of service. Besides, this increased overseas pay can be remitted to England at a very favourable rate of exchange, namely, 2 s. a rupee, though the current rate is only about 1s. 4d.

In addition to this, European officers and their wives are to receive 4 return passages to England, and one

1. For the constitution and functions of this body, see Lee Commission's Report paras 24 to 30.

single passage for each child. The family of an officer who dies in service is to be repatriated at Government expense, even though he may have exhausted the full number of passages available to him. In order to provide for this concession an addition of Rs. 50/- a month is to be credited to the pay of all British members of the Superior Civil Services. This sum is to be set apart as a special "Passage Fund" to be utilised when necessary.

In the case of houses provided by Government, the rent is to be calculated on certain principles and is not to exceed 10 per cent. of the monthly emoluments of the officer concerned. In the case of private houses, relief is to be given to the officer concerned for the excess over 10 per cent. which he may have to pay for accommodation reasonably sufficient for his status and proportionate to his pay. This relief is to be included in what is known as "compensatory local allowance".

In the matter of medical aid, "the principle that attendance by medical officers of their own race should be available for members of the Services and their families," is to be accepted, and provision has been made to put this into practice with reference to British officers at some extra cost to the state.

Though the pensions now given to the I. C. S. have been considered liberal, substantial additions have been proposed to the pensions of those members of the I. C. S. who attain to the rank of Members of Council, and Governors of Provinces. Increases have also been suggested in the pensions of the uncovenanted services. The management of the I. C. S. Family Pension Fund is to be improved, the existing fund is to be closed, and a new fund divided into Indian and European branches is to be opened. Similar Family Pension Funds for other services are to be introduced.

In return for these elaborate and costly concessions mostly to the European members of the services raising them to Olympic heights beyond the reach of Indian Ministers and Legislatures, the people of India are given, through Ministers, (1) control over future recruits in the transferred fields of administration, and (2) partial Indianisation in the Services. The first, namely, the control, over recruits in the transferred fields of administration is a natural corollary of the system of dyarchy which ought to have been in operation since the inauguration of the Reforms. The anomalous situation created by the fact that Ministers have to depend for the carrying out of their policy on officers over whom they have no control, could not have lasted for a day, had all those who happened to occupy the position of Minister been sufficiently self-respecting.

The second, namely, partial Indianisation in the Services is a belated attempt to fulfil the long series of solemn pledges in this connection made since the earliest days of British rule in India. Besides, when we remember that a cadre of only 50 per cent. Indians is to be reached 15 years hence in the I. C. S., and 25 years hence in the I. P. S., we must come to the conclusion that the only point of view which should prevail in this matter, namely, "what is the minimum number of Englishmen which must still be recruited," is still hopelessly in the background.

(C) COST OF COLLECTION.

In the chapters on the different heads of revenue, the cost of collection will be separately shown under each. The revenue collecting agency is closely connected with the civil administration of the country, and it will not be out of place, if we discuss the general question of cost of collection at this stage.

The following table summarises the percentage of the cost collection on gross revenue, under the different heads of revenue in each of the periods :—

Heads of Revenue.	1st period.	2nd period.	3rd period.	4th period.
Forests	64	59	56	59
Registration ...	—	57	56·7	45·8
Opium	23	26·6	30	36
Land Revenue ...	11·5	14·2	15·8	17·7
Customs	7·5	7	3·7	2·3
Salt	7·4	6	6·8	10
Stamps	5·6	3·5	2·5	2·6
Excise	8·9	3·3	4·5	4·8
Taxes or Income ...	3·7	2	1·5	·8
Provincial Rates ...	—	1·7	·06	—
Total ...	12·8	13·5	13·9	12·6

The expenditure under *Land Revenue* is not entirely due to the cost of collection. Though the chief function of the District Collector and his staff is the collection of Land Revenue, he has many other important functions. He is also the District Magistrate and supervises the departments for the collection of several other taxes. A part of the cost of the district establishment is charged to "Law and Justice", in order to show separately the expenses of criminal justice, which is administerd by the Collector and and his subordinates. In a similar way, the cost of the other departments for the collection of revenue are separated. But in some cases this distinction in the accounts has to be made arbitrarily. On account of these causes, when we consider Land Revenue by itself, the cost of collection would appear somewhat heavier than what it is. But when we take the cost of collection on the whole this discrepancy disappears. The percentage of the average charges of collection to the gross receipts shown under Land Revenue shows a marked increase compared with the increase in the revenue. From 11 in the first period, it rose to 14

in the second, was nearly 16 in the third, and approached 18 in the fourth. This is accounted for by the gradual expansion of the Land Revenue establishments, on whom a great part of the work of civil administration of the country rests and by an increase in salaries and allowances from time to time.

Provincial Rates are collected along with the Land Revenue, and we see under this head that the cost of collection is very small. These rates were separately shown in the second period, when the percentage of the cost of collection was 1·7. With the decrease in the provincial rates in the third period, the percentage goes down to ·06, and is very insignificant in the fourth.

In the chapter on *Opium*, we shall see that the Government maintains large manufacturing establishments. The production of *Salt* is also under Government control. The expenditure under Opium and Salt, therefore, includes the cost of manufacture in addition to the cost of collection of the revenue. The percentage of cost of collection to gross revenue under opium rose from 23 in the first to 36 in the fourth period. The rise is partly explained by the decrease in opium revenue, without a corresponding decrease in the cost of establishments. The same cause explains the increase in the percentage of the cost of collection of salt revenue which had gone down to 6 in the second period, but rose to 10 in the fourth. The Inchcape Committe has recommended a reduction under opium by reducing the price paid to opium cultivators. The committee has also recommended an improvement under salt by the introduction of commercial accounts in the salt department, and by fixing the price of salt in such a manner as to include a reasonable interest on the capital outlay.

The large percentage of expenditure amounting to nearly 60 per cent. under *Forests*, and *Registration* is due to the maintenance of large establishments for the improvement and conservation of forests on the one hand,

and for facilitating the registration of documents in villages on the other.

The percentage of cost of collection under the remaining heads of revenue namely, *Customs, Excise, Income Tax, and Stamps,* unlike that under Opium and Salt, shows a gradual diminution, in spite of an increase in revenue under each of them. This tendency is most marked in the case of Customs and Income Tax, the two sources of revenue which have expanded considerably in recent times. The percentage under Customs goes down from 7·5 in the first period to 2·3 in the fourth; that under Income Tax gows down from 3·7 in the first to .8 in the fourth period. This shows that the cost of collection under these heads, does not increase with an increase in the revenue. The percentage under Stamps and Excise in the fourth period is nearly half of that in the first.

The cost of collection does not include the furlough and non-effective charges of the Revenue service. No estimates of these can be formed from the accounts, for they are not shown under the different heads of service to which they belong. There are also some minor services performed by the other departments of the State for the Revenue departments, the cost of which it is difficult to determine. We thus see that on the one hand, there are some items which are included in the cost of collection, which ought not to be there, and on the other hand, some items which ought to be included are shown separately. Making full allowance for these considerations we may say that the total cost of collection as shown in the accounts is slightly higher than what it really is. Though it is difficult to make an exact allowance for this discrepancy, we might roughly say that the percentage of the total cost of collection on the total gross revenue was on an average 12 in the first and fourth periods, and 13 in the second and third.

Comparing with other countries we find that the cost of collection is greater in India. For example, in 1897 the cost of collection of taxes in the United kingdom was 3.65 per cent. of the gross revenue; in pre-war years it was a little more than 2 per cent of the gross expenditure.[1] Even if we take into consideration the special difficulties in India—the vastness of the country and the large number of poor people from whom taxes have to be collected, we cannot but come to the conclusion that these charges are very heavy. One main reason for this is to be found in the costliness of the European agency employed by the Government in their service. Certainly if the people of the land had not been excluded from higher positions in Government service, this expenditure would have been materially reduced.

The rate at which this charge increased is also worth noting. As pointed out above, the collecting agency does not become more expensive in the same ratio in which the revenue increases. As a matter of fact, we have noted that the tendency in some important cases is for the percentage of cost of collection to go down with an increase in the revenue. In spite of this we find that the ratio of increase in the total cost of collection in the second and third periods is greater than that of the increase in gross revenue.[2] With the very great additions to taxation during the war period, the ratio of the gross revenue rises to 244 in the fourth period, (taking the first

1. Cf. W. C. Report, para 132, and Bernard Mallet, British Budgets, p. 509.

2. The following figures show the ratio of increase in the cost of collection and the gross revenue :—

	Cost of Collection.	Gross Revenue.
1st period	100	100
2nd period	140·9	133·6
3rd period	194·4	179·0
4th period	241·1	244·4

period as the base), but the collecting agency also seems to have expanded or grown expensive to an equal degree, the ratio in its case being 241.

In connection with this subject we may refer to two items which are grouped together with the cost of collection under the heading "Direct demands on Revenue." The first is "Refunds and Drawbacks." They are either sums received but not legally due or revenue rebated. In considering the gross revenue in relation to the cost of collection, this item has been deducted. The other item is "Assignments and Compensations." These are payments (1) to the French and Portuguese Governments ; (2) to Native States and (3) to Landowners. Compensation given to the Portuguese and French Governments and to Native States, when the Salt sources were taken over by the Government of India come under this item. The grants to landowners are chiefly for services rendered to the State or for compositions with landowners, whose estates for some reason or other fell into the hands of the Government. The figures under these items in the different periods are as under :—

(In Lakhs of Rupees.)

	1st period.	2nd period.	3rd period.	4th period.
Refunds	36	27	37	142
Assignments & Compensations	181	134	165	189

CHAPTER VIII.

COMMERCIAL SERVICES.

Under this head are included those departments which are maintained not for the primary functions of the state, namely, law and arder, but which, like railways, are meant for the development of the country, and from their very nature have to be run on commercial principles. They are Railways, Irrigation works, Post Office, Telegraphs and Mint. From the point of new of administrative origin, the first two are connected with the Public Works Department, which is also concerned with the construction of civil buildings and roads. We propose, therefore, in this chapter to give in the first instance, an idea of Public Works Organisation along with a brief discussion on civil buildings and roads, and then proceed to trace the financial developments of Railways, Irrigation works, and Post Office, Telegraphs and Mint.

Public Works.

The Public Works Department of the Government of India was established by Lord Dalhousie in 1854. Before this time public works other than military and civil buildings were of a minor character, and were in charge of the engineering department of the army. Among works constructed under this system may be mentioned portions of the Jumna and Ganges Canals, certain irrigation works in the deltas of Madras, and the Great Trunk Road to the North. The expenditure upon these works was provided from the ordinary revenues of the state.

When however this new department was created, the works to be executed and the expenditure to be controlled by it came to be gradually divided under two heads.—(1) the erection and maintenance of civil and military buildings, the repair and construction of roads and such other works necessary for administrative purposes ; (2) the

construction and extension of Railways, Irrigation canals and harbours. This distinction was not clearly understood from the beginning, which led to many blunders, inconsistencies and financial loss. The works in the first category were classed as " ordinary works " ; those in the second were classed as " extraordinary works ". The distinction was financial. Those works the cost of which was provided from the ordinary revenues of the state were classed as ordinary. Those, on the other hand, for the construction of which money had to be borrowed were termed " extraordinary ". The latter kind of works came into existence for the first time in 1867. The policy which led to this arrangement will be discussed in its proper place. Before 1867 such extraordinary works were carried out through the agency of companies on whose capital interest was guaranteed by the state. In 1878, the term " extraordinary works " was changed into " productive public works. "

In course of time, the organisation of the Public Works Department underwent several changes which may be briefly described as " decentralisation of control over details accompanied by consolidation of control over essentials. " In 1882, the Military Works branch was handed over to the Military Department, and the Public Works Departmant, which was in its origin mainly military became a purely civil organisation. The growing importance of railways led to a further subdivision by the creation of a Railway branch in 1896, weich was replaced by the Railway Board in 1905. The Railway Board was placed under the Department of Commerce and Industry, and the Public Works Department which now dealt only with irrigation and civil works was transferred to the Member in charge of Revenue and Agriculture. In the matter of Buildings, Roads and Irrigation, the Provincial Governments were given very wide powers even before the Reforms.

In connection with the organisation of the Public Works Department the establishment of the Indian Civil Engineering College at Cooper's Hill in Surrey in 1871 may be noted.[1] In view of the new policy regarding public works (to be discussed later), it was supposed that the number of recruits required for the engineering establishment of the Government was likely to be largely increased. As early as 1869, the Secretary of State came to the decision that there should be a college in England for the training of such recruits, that admission to this college should be given by competitive examination, and that the candidate after passing the prescribed tests should be assured of an appointment in the Indian Public Works Department. The Government of India considered the success of such a college to be a matter of very great uncertainty and had great doubts whether any real necessity existed for its establishment. The Duke of Argyll, however, decided to establish a college to bring the Public Works Department "into a state of thorough efficiency". About a million pounds were thus spent from the Indian treasury on the establishment of an institution in England, out of which a regular flow of English youths was to proceed to India to construct Public Works with a salary of Rs. 4200 rising to Rs. 42,000 a year. No special inducement was offered to the people of India to go to to this college; it was supposed that they were on the same footing as other people. It may be noted that the College was abolished in 1906 on financial grounds. There are four Engineering Colleges in India—(1) at Roorkee in the United Provinces, (2) at Sibpur near Calcutta, (3) at Madras and (4) at Poona. There are also a few Engineering schools.

As said above, we shall discuss the question of irrigation works later. We may refer here in brief to the

1. *Cf.* P. P. 115 and 148 of 1871.

expenditure on Civil Buildings and Roads, which stood as follows in the different periods :—

1st period	1·4	crores of Rs.
2nd period	3·5	"
3rd period	6·9	"
4th period	9·2	"

This very great increase is accoounted for by the lavish expenditure on public buildings and by the improvement and extension of roads. It must be pointed out, however, that inspite of this expenditure in many parts of the country the roads are not in a satisfactory condition, and that in many villages there is as yet nothing like roads, which makes traffic in the monsoon impossible. It is generally believed that the people do not get the full return of this expenditure as part of the money is misappropriated by unscrupulous officers of all ranks.

INDIAN RAILWAY FINANCE.

Guaranteed Railways.

Two private corporations, the "East Indian" and the "Great Indian Peninsula" railway companies were formed in 1845. They found it difficult to raise the necessary funds and applied for the assistance of Government. This led to a prolonged discussion as to the agency by which railways should be constructed in India. It was ultimately resolved to give pecuniary assistance to private companies in the shape of a guarantee of interest upon their capital. This was in accordance with the decision of Lord Dalhousie that the construction of railways in India should be undertaken by private companies under the supervision and control of the Government. In, arriving at this decision Lord Dalhousie committed a great error, which resulted in a great loss to the revenues of India. In his

minute of 20-4-1853, he lays down certain functions of the state in these words:—

"I hold that the creation of great public works which, although they serve important purposes of state, are mainly intended to be used in those multifarious operations which the enterprise, the trade, and the interests of the community for ever keep in motion, is no part of the proper business of a Government.......The conduct of an enterprise which is undertaken mainly for commercial purposes, and which private parties are willing to engage for, does not fall within the proper functions of any Government. Least of all should it be taken as any part of the business of the Government of India."

Whatever truth there may be in this theory, so far as highly organised western countries are concerned, its application to India in 1853 was not in the least justified[1]. At this time, in India, private parties willing to undertake such works (as contemplated by Lord Dalhousie) did not exist. If these works were to be undertaken, it was necessary to import foreign capital to some extent. But instead of importing foreign capital the policy established by Lord Dalhousie led to the importation of foreign capitalists. The distinction between a country which imports foreign capital and manages its own affairs, and a country which invites foreign capitalists both to invest foreign capital and to exploit its resources is clear. In the former case there will be the tendency to shake off the foreign burden by wise economy, in the latter the tendency will be to increase it by reckless extravagance. Moreover, if a country which thus invites foreign capitalists also assures them of a fat and secure rate of interest on the capital invested in its own exploitation, it certainly commits an act of economic suicide. The early British rulers of India have provided the world with an instance of this nature, into the details of which we shall now proceed.

As said above, it was resolved to construct railways in India under what is popularly termed the "guarantee

1. Cf. S. C. 1872. Q. 2947.

system", through the agency of companies, who receive from the Government the guarantee of a certain rate of interest upon the capital expended. Government has a certain amount of supervision and control over the several companies. The land required for the railway and works connected therewith is given to the companies free of expense, by the Government.

The Committee of 1858 :—Before sufficient time was allowed for the operation and results of this system, complaints were made by interested parties in England against the delay in the commencement and construction of these works. The importance attached to the complaints, led to the appointment of a Committee of the House of Commons in 1858, "to inquire into the causes that have led to the delay".

They classified the causes of the delay into four heads :—

(1) Those arising from Government supervision in England and in India,

(2) Those incidental to the execution of extensive and complicated public works, under such circumstances, in a distant country,

(3) Those produced by political causes, such as insurrection and mutiny,

(4) Those arising from the natural difficulties which the face of the country presents.

In conclusion they stated :—

"Your Committee are of opinion, first, that the Government has acted wisely in committing to private enterprise the execution of these great public works; secondly, that a guaranteed interest on the requisite capital was indispensable, to induce the public to invest their money in undertakings of this magnitude and novelty; and thirdly, in order to protect the Indian revenue from undue expenditure, Government control over the railway operations is requisite, and even valuable to the interests of the shareholders themselves. At the same time Your Committee would observe that, under a system complicated in its character, and necessarily somewhat cumbrous in its machinery, a system, moreover, the

greatest defect of which is the facility it affords for the evasion of responsibility, a clear and distinct definition of the duties, responsibilities, and extent of jurisdiction of all heads of departments, and those under them, is essentially requisite for its smooth and successful working ".

Thus on the one hand the system of guarantee got the sanction of a Parliamentary Committee, on the other its most glaring defects did not escape notice,—its complicated character, its cumbrous machinery and worst of all the facility it afforded for the evasion of responsibility.

This gave an impetus which led to increased investments and rapid construction which is evident from the following table.[1] In the years immediately following the report of this Committee £.7 millions a year were spent on railways by the companies. The system thus established was actively continued. Millions were being invested every year. Whether these large sums of money yielded a good return, it was not the business of the investors to investigate. So long as the English capitalist was assured of 5 per cent. on the security of the revenues of India, " it was immaterial to him whether the funds that he lent were thrown into the Hooghly or converted into brick and mortar ".[2]

			Thousands. £	Miles opened during the year.
1. Upto	1850	...	175	...
In	1851	...	351	...
	1852	...	427	...
	1853	...	670	$22\frac{1}{4}$
	1854	...	1,729	$50\frac{1}{4}$
	1855	...	3,371	$98\frac{1}{4}$
	1856	...	3,517	$101\frac{3}{4}$
	1857	...	3,417	143
	1858	...	5,491	145
	1859	...	7,162	$74\frac{1}{2}$
	1860	...	7,589	208
	1861	...	6,558	759

2. Cf. Massey, S. C. 1872, Q. 8867.

The most sanguine hopes of earning the guarantee were frustrated by the heavy outlay on the construction of the lines. "The standard of construction was far higher than required for the conditions of the country, or for the actual work which the railways were designed to perform. Conveniences were provided which, while in themselves desirable, were unnecessary for the safe or efficient operation of the railway; and the experimental lines were built with a double track, the necessity for which did not arise till a generation later. A further increase in the cost of construction was caused by alterations in the routes after work had been actually commenced. The outbreak of the Mutiny in 1857 added to the burden, by throwing everything into confusion and causing the suspension of all work for a time. Consequently, the earnings, which might have been sufficient to pay interest charges on a reasonable expenditure, proved inadequate to meet the guarantee on the outlay actually incurred, and Government had to make good the deficit."[1] Besides cases of mismanagement were not rare. It was pointed out to the Select Committee of 1872[2] that on the Great Indian Peninsular Railway, 2,000 masonery works including bridges and viaducts had to be repaired soon after their construction.

One of the lessons which the Mutiny brought home to the Government of India was the necessity of the extension of railways. Attempts were made to induce private companies to undertake the work in India without the assistance of Government.[3] Unfortunately for India, once the system of Government guarantee was established English capital was not ready to take any risk without such a guarantee. English capital is not shy. It was in excess in those days and was seeking investment in all

1. Imperial Gazetteer, III, p. 367.
2. Q. 1895.
3. Cf. S. C. 1872, Qs. 3029-30, 8286.

parts of the globe. During these very years of guaranteed railway construction in India, English capital was invested in extraordinary enterprises in South America and other countries. There was no reason why English capital should have neglected India. The fact was that once companies had been guaranteed there was no chance of unguaranteed companies coming forward. If private capital had gone to India without a guarantee, it being known that if the investors made great mistakes, they would have to take the consequence of those mistakes, very much greater care and very much greater economy would have been adopted in the construction of railways.

As no one was willing to undertake further railway construction in India without a guarantee, the Government ultimately gave the usual guarantee of 5 per cent. as in the previous cases. As these railways also failed to earn the guaranteed interest, the burden on the Indian revenues kept on increasing in amount. During the first period, when the Finance Member had generally to tell a melancholy tale, when new taxes had to be imposed to meet growing expenditure, the average annual burden of 1·4 m. £ on account of guaranteed interest was most seriously felt. Referring to this item, in his Financial Statement for 1872, Sir Richard Temple said that :—" On the whole, the conditions of the guaranteed railways during the year added one more to the many anxieties of Indian Finance ", and "that no part of our State finance requires at the present time, more firmness and vigilance than that which relates to the guaranteed railways".

Besides these inherent evils of the system there were other grave defects, which were fully exposed before the Select Committee of the House of Commons on Indian Finance during the years 1871-74. Most of these were chiefly due to the way in which the contracts with the companies were made. It was pointed out that the contracts with the railway companies which purported to

explain the guarantee system, were a perfect disgrace to whoever drew them up, for they contradicted themselves two or three times in the course of their several clauses and they were seldom appealed to for the protection of Government interests without turning out to be practically worthless for that purpose.[1]

For example, in one part of the contract it is provided that at the expiration of the term of 99 years the railway shall become the property of Government for nothing. This implies that the Government, which provides the land, has let the land to the company on building lease, at the end of which the property shall be vested in the Government. But there is another clause which says that if any time before the expiration of the lease the company think proper to surrender their railway to Government, the Government then must pay them the full amount of the capital which they have expended upon it. " So that while in the same breath the contract says that in the 99th year the Government shall get the railway for nothing, it says also that in the 98th year, if the company think proper to demand it, they may get the full value of the railway".[2]

In the clauses relating to the surrender of the railway to Government, there is also a contradiction. The company may either surrender the railway to the Government, or the Government may insist on taking it up. Now in case of surrender, that is to say, when the company wished to sell, whether the Government wished to buy or not, then it is quite true that Government is bound to pay to the railway company only " the capital expended by the said railway company, ascertained and certified in the manner hereinbefore mentioned, " that is, after deduction from it of any unsanctioned expenditure. But there is no precaution of this kind, if the Government

1. S. C. 1872, Q. 1856.
2. S. C. 1872, Q. 1898.

wished to purchase. In that case, " although it may possibly happen that a million or two has been expended by the Company without the sanction of the Government, although it is possible that it may have been spent on mere extravagance of work, or may possibly have been run away with by some of the officers of the company, or wasted in whatsoever other way, in such a case, although it is excluded from the capital account, the Government having resolved to purchase the railway, must pay over to the company the whole of their capital stock, without any deduction of the kind."[1]

Besides this, there are instances of conditions in the contracts which were not fulfilled and which therefore imposed great financial burdens on India. In the original contracts it was provided that the sums which the Government would pay on account of guaranteed interest would be a loan to the company and that whenever the net receipts exceeded the amount of the guaranteed interest, half the excess would go to the shareholders and the other half would be applied to the repayment of the sums previously paid by Government on account of guaranteed interest. This dream was never to be realised. The debt of the companies on account of guaranteed interest was accumulating at such a rate that it left little hope of the ability of the companies to pay it off within the terms of their leases. By the new arrangements which the Government made in 1869 it was arranged to keep no account of guaranteed interest as against the companies and to cancel the past debt.[2] A lame provision was added as a compensation that any excess profits over 5 per cent were to be equally divided between the Government and the companies. Thus 16 millions which had been advanced by the Indian taxpayer up to 1869 disappeared as bad debt;

1. Cf., Thornton, Secretary, P. W. D. India Office,—he gave instances of all these possibilities. S. C. 1872, Q. 2975 and 3012.

2. Cf. Danvers, Railway Report, 1869, p. 5.

the future was to show that much more was to be advanced in the same way without any hope of return.

Again, according to the original contracts, if the working expenses are more than the receipts the companies are responsible for the difference, that is, the deficit would be met from the guaranteed interest. But the contracts contain the curious provision that the companies may, in case the working expenses are not covered by the receipts, surrender the line to the Government; in which case the Government is bound to pay the capital that has been expended upon the works with their sanction and also the unexpended balance in the Government Treasury. This second provision defeats the object of the first. The operation of these clauses was seen in the case of the Calcutta and South Eastern Railway which did not pay its working expenses. "It was allowed to go on for two or three years in the hope that the railway would recover itself, but appearing to be in a chronic state of deficiency the Government at length gave notice that if a deficit occurred again they would exercise the powers vested in them by the contract, and would make the shareholders responsible for the deficit; whereupon the company gave notice to the Government that they would give up the railway."[1] The Government showed the extraordinary indulgence of paying not only the guaranteed interest but the excess of working expenses over receipts and ultimately bought a losing concern, returning the whole capital at par.

We thus see that there were many grave blunders in the contracts with the companies which gave them unfair advantage at the cost of Indian revenues; that the English investor had no impetus to see that the company did work on sound lines; that the system led to extravagance and mismanagement and that it discouraged private enterprise

1. S. C. 1872, Q. 1694.

without a guarantee. The evidence of Lord Lawrence is conclusive on this point. He said[1] :—

> In the first place I would remark, that I do not think that in point of fact the arrangements connected with these railways which have cost us one hundred millions have been made in an economical way. On the contrary I believe that they have been made in a more or less extravagant way; so that if the work had to be done over again, it would be done for two-thirds of the money. I think it is notorious in India among almost every class that I have ever heard talk on the subject, that the railways have been extravagantly made; that they have cost a great deal more than they are worth, and ought to have cost. I have heard natives of the highest rank and of the lowest rank say so, and I have heard Englishmen in the service, and out of the service, say so. Moreover, I have heard some of their own engineers say so ".

In the meanwhile, the consciousness grew upon the Government that the system was disastrous and must be given up, which after a long correspondence between the Government of India and the Secretary of State resulted in the famous minute of Lord Lawrence (then Viceroy) of 9th January 1869. The question of the construction of railways by the state itself was examined. The issue was raised, " whether it is reasonable, or consistent with the true interests of India, to continue a system under which the revenues have to bear the whole risk and loss, and can derive no direct benefit from railway construction, in preference to one under which, with a risk certainly no greater and probably much reduced, the whole of the direct profits can be added to the public revenues, and made available for reducing taxation, or preventing the imposition of new burdens ". To the presumed incapacity of the Government to carry out or manage such undertakings, the following reply was given—" The history of the actual operations of railway companies in India gives illustrations of management as bad and extravagant as anything that the strongest

1. S. C. 1873, Q. 4589.

opponent of Government agency could suggest as likely to result from that system". Lord Lawrence gave it as his own decided opinion, "that the direct agency of Government would certainly be more economical than that of the railway companies, and that there would, in almost every respect, be advantage to the state financially, and therefore to the community of India at large if the Government were to determine to carry out railways hereafter through its own engineers, with money directly borrowed in the market for the purpose."

Coming to the strictly financial aspect of the question he laid down that "future progress in railway extension will directly depend on the continued appropriation of a determinate annual grant from the revenues to cover the interest on the capital employed until the lines become sufficiently productive to pay the whole amount". In accordance with this proposition he calculated that "it would be quite reasonable and practicable to assign two millions as the yearly sum to be appropriated to aid railway extension". This estimate included the annual charge for guaranteed interest which it was supposed would go on diminishing from year to year leaving a large balance with which new lines could be undertaken.

In a later part of this chapter we shall see how advantage was taken of this principle by the Government, when they began to raise large sums of money for capital expenditure on railways, on the belief that the revenues were sufficient to meet the interest charges on the additional capital. The warning of Lord Lawrence in this connection was then forgotten. He had observed that "the experience of India in respect to the growth of railway capital is thus beginning to teach the same lesson that has been taught on a gigantic scale in England, namely, the urgent necessity for resisting the tendency to incur additional capital outlay, without creating additional paying power in return".

The scheme of Lord Lawrence was substantially adopted by the Secretary of State and by Lord Mayo who succeeded him as Governor-General, and in 1870 the first definite steps were taken to give effect to it, though expenditure on the first state railway had commenced from 1867.

Productive Public Works.[1]

We have seen that the policy of constructing Railways directly by the State with borrowed money was deliberately adopted in 1869, in preference to the system of guaranteed works which prevailed till then. The most important financial question that arose in connection with this policy was the limit of expenditure on these works. In the early discussion that took place between the Government of India and the Secretary of State, there arose a fundamental difference of opinion with regard to this limit. The Secretary of State rightly insisted that the construction of such works out of borrowed money should be limited to those which might be expected to be really remunerative, and for which the necessary loans could be raised in India,[2] whereas the Government of India were inclined to work on the different and more convenient principle of accepting a fixed annual charge on the revenues of India in respect of what were known as Productive Public Works.

In 1876, a proposal made by the Government of India based on their own method, was disapproved by the Secretary of State. In the years 1877 and 1878, the Famine Insurance Scheme was inaugurated, and from this time the one aim of the Government of India was how best to utilise a part of the Famine Grant for carrying out their extensive plans of Public Works, without due regard for

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1. This phrase includes both Railways and Irrigation works, and the policy discussed under this heading was generally applied to Irrigation Works also.

2. Cf. Lord Salisbury, Despatch, 1874. S. C. 1878, Report p. XVII.

the principles of the Famine Insurance Scheme, and without prudence and economy in their construction.

In September 1878, they made their first proposal to this effect[1] :—that because it was difficult to discriminate between works strictly productive and those only admissible as providing against the effect of famine, they should be allowed to add an annual sum of 25 lakhs of Rs. to "their net existing liabilities", on account of interest on the capital invested on Public Works. This sum was to be a primary charge on the Famine Grant, because it would help in the construction of works not fully productive, and would reduce the ultimate liability on account of famines when they occurred.

This was, however, not approved by the Secretary of State on the ground that the financial condition did not justify a loan for outlay on protective works, and that the expenditure on such works should be limited to the receipts from the special taxation in connection with the Famine Grant.[2] It was at this time that the Secretary of State laid down that half the Famine Grant should be remitted to England for the reduction of debt due to famine, and that the other half should be appropriated at the discretion of the Government of India "to extinction of debt, to relief of famine, or to the construction of protective works, not necessarily directly remunerative, but productive in the sense of guarding against a probable future outlay in relief".

The attention of the Government of India was also drawn to the strict interpretation of and adherence to the rules laid down in connection with "Productive Works". According to these rules, for the inclusion of any work in the productive class, it was necessary that there should be a prospect of its repaying within a reasonable time the

1. S. C. 1878, Report.
2. W. C. II, p. 125, Despatch 20-2-1879.

whole of the interest incurred on the money expended in its construction.

The Committee of 1878 :—It was when affairs were in this situation that a Select Committee of the House of Commons was appointed "to inquire into and report as to the expediency of constructing Public Works in India with money raised on loan, both as regards financial results and the prevention of famine".

The Committee said in the first instance that[1] (1) though considerable sums had been wasted and certain profitless schemes had been undertaken, the policy of borrowing for productive public works may be continued within certain restrictions which they laid down.

(2) They found that the principle laid down by the Secretary of State that no works, except those likely to be remunerative, were to be constructed with loans, had failed in effect. The reason was that in sanctioning schemes for large public works no test was applied by which with any certainty a remunerative return could be ensured.

It was pointed out that in spite of publicity and criticism, certain engineering enterprises had proved failures in England. In India, there was neither publicity nor engineering talent able to criticise the projects of the Public Works Department. If a project that was put forward satisfied existing rules, the Government of India would sanction it, as complying with the condition that it would be remunerative. After commencement, unforeseen difficulties might occur, which might upset all calculations and make it doubtful whether the work would pay its way. When such cases arose, and they were not unfrequent, the custom was to transfer the work to the "ordinary" category and to construct it out of ordinary revenue. This could not be done unless there was

1. Report of S. C. 1878, p. XVII.

a surplus, in the absence of which a loan had to be incurred or the work had to be postponed. If there was a surplus, and a portion of it was used in such an unremunerative work, "financially speaking, that sum would have been better employed in reducing debt." Besides, in such cases, no charge was made for interest against the sums, whether borrowed or otherwise, spent in the construction of such works. If the work brought any revenue, the ordinary income of the year would be increased by it, but no account of its cost would be perceived. "It is difficult, therefore," the Committee observed, "to conceive any procedure by which greater facilities are offered to the Public Works Department, to efface 'all bad bargains', than to lay down a rule by which works, on account of their failure to comply with the sole condition upon which they were sanctioned, may be transferred to an account where they are lost sight of."

They, therefore, recommended that those works which paid the least, and which in proportion to their income cost the most, should be included and not excluded from the account, the form of which was to be revised and made more intelligible. They also hoped that in view of past experience, the Government of India would be more cautious, and the Public Works Department less sanguine in the promotion of public works.

(3). With reference to the more important question of the limit of expenditure, the Committee disapproved of the latest proposal of the Government of India. This proposal was to accept for 5 years as a dead weight upon Indian revenues the loss due to existing public works, adding to it 25 lakhs of Rs. out of the Famine Grant to pay for the interest on sums raised for new famine protective works. This placed three sources of income at the disposal of the Public Works Department— (1) The net receipts from these works, (2) a fixed sum called by the Government of India "dead weight" sufficient

to establish an equilibrium between the net receipts and the existing interest charges and (3) 25 lakhs of Rs. out of the Famine Grant. The idea was that provided the interest on the sums borrowed did not exceed the aggregate of this income, new works might be constructed to any extent.

The Committee rejected this scheme on three grounds—(1) because the adoption of such a plan would be the admission of the principle that works, sanctioned and constructed as remunerative, might afterwards be accepted as a permanent charge upon the revenues of India, (2) because the scheme afforded no check whatever to the possible and ultimate amount of that charge, and because (3) it was against the principles of the Famine Grant.

The capital invested in productive works increased every year, with the consequent addition to the charges for interest and those for the maintenance of these works in operation. If the receipts from these works increased in the same ratio, the amount of the "dead weight" would remain the same for subsequent years. But these receipts were liable to great fluctuations, and the "dead weight" being dependent upon them also varied from time to time. The Committee did not think it wise to attempt to control capital expenditure by assigning a certain sum out of the revenues of India, as the limit beyond which no liability was to be incurred because the receipts to which this sum was to be added could neither be regulated nor estimated.

Having dismissed this scheme, the Committee accepted as the only other practicable check, the proposal to limit the amount of the annual capital outlay. With this end in view, they made the following among other recommendations:—

(*a*) That the construction of new works from borrowed money for the future be limited to those schemes alone which, upon the responsibility of the Government

are estimated to be productive, by yielding an annual income equal to the interest on the capital expended in their construction, including in such capital, interest during construction.

(*b*) That the amount to be annually expended upon productive public works should mainly depend upon the financial condition of India (and should, therefore, for the present, be limited to an amount of 2·5 m. £ as recently fixed by the Secretary of State).

(*c*) That in furtherance of the above recommendation, 2·5 m. £. should be the maximum amount to be raised in any one year by the Indian Government (in addition to existing liabilities) for the prosecution of productive public works.

(4) The Committee, finally considered the strength of the establishments in the Public Works Department. They found that the number of Europeans was too large for the work they had to perform, and that it would be still more in excess under the reduced expenditure prescribed by them. The heavy cost of their maintenance largely reduced the profits due to the works, and they, therefore, recommended that "the numbers admitted to Cooper's Hill, with a view to their employment in the Public Works Department should be carefully adjusted with regard to the future requirements of the service, and and that the establishments in India should be at once reduced".

Early in 1881, the Secretary of State issued an important despatch[1] in which he agreed with the recommendations of the Select Committee and laid down certain rules giving precision to those recommendations.

The rules thus devised after a long discussion and after a careful investigation by the Select Committee were certainly satisfactory in many ways. The necessity of the

1. Despatch 6-1-1881, S. C. 1884, p. 491.

construction of Public Works by the state was recognised. But the mistakes of the past were not to be repeated, and proper safeguards and checks were provided for the cautious execution of this policy. The Government was not to plunge headlong into this most important task, but was to move gradually within certain limits dictated by prudent economy, by its own financial situation, and by the capacity of the country.

But unfortunately for the country, the Government of India were drifting in a different direction. The spending propensities of the Public Works Department could not be restrained. No sooner were the above rules laid down than the Government of India tried to find pretexts to transgress them. On the one hand, they went on spending more than the prescribed maximum, on the other they took an early opportunity of evolving a new scheme which was a complete reversal of the principles so recently approved.

The Government of India discovered two things :—

1. The Famine Commission (1880) had estimated that for the substantial protection of the country against famine it was necessary to construct about 5,000 miles of new railway. Out of this, the Government of India had strong grounds to believe that 3,000 miles would have to be constructed for "protective purposes", because it was not likely that they would yield such a return in a reasonable time, as would entitle them to be classed as "productive", or as would attract private enterprise without state assistance. To construct these 3,000 miles of new railway out of the small sum that was made available from the Famine Grant would take about 30 years; whereas the Government thought it wise to construct them in four or five years[1].

2. Private enterprise had begun to look seriously at Indian railway projects. Two railway companies had

1. S. C. 1884, p. 493.

been recently floated under the system of a simple "limited guarantee". Under this system, the Government besides giving the land free of charge, gave a guarantee of 4 per cent. until the opening of the line, or the expiration of a short term of years, whichever might first occur, but the loss on this account was to be recovered with interest out of half of surplus profits above 5 per cent. The Government also reserved a right of purchase at certain intervals, and a partial reversion of the property at the end of 99 years[1]. Several new lines were about to be undertaken on similar terms. It was expected that these enterprises would fulfil the "productive" conditions in a short time. The London Money Market having thus become favourable to Indian railway projects the consequence would be that, "while the means of making protective railways will remain as inadequate as ever, those provided for really productive lines will scarcely be required".

Under these circumstances, the Government considered it necessary to invert the regulations hitherto in force.[2] Instead of continuing State agency for the construction of productive lines, they now thought it better to leave this field of profitable enterprise to private companies, and confine themselves to the construction of those railways, which from their unprofitable character or other causes, private agencies were not willing to undertake.

Since 1869, the Government were constructing both remunerative and unremunerative lines, the former with borrowed money, the latter from revenue. In spite of many mistakes, it may be asserted that on the whole there was some prospect that the Government would not lose, if not gain financially. According to the new policy that was advocated, the Government were still to borrow money, to invest not in productive but unproductive lines.

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1. Ibid, p. 511. 2. Ibid, p. 512.

Those projects which were supposed to be remunerative were to be reserved for private agencies; (which meant English companies); the Government were to utilise their resources in the construction of those which would necessarily involve loss.

And it was possible to propose such a policy, because it could be covered with benevolent intentions. The loss was to be incurred, because India was to be provided against famine. A reasonable provision against famine existed in the shape of the Famine Insurance Grant, but the Grant provided very little work for the "hugely overgrown[1]" establishments of the Public Works Department; and the Cooper's Hill College was adding to the number in regular succession every year.

India is liable to famine, and among the remedies against the effects of famine, the extension of railways is certainly one. But to exaggerate the importance of this one remedy and to try to apply it at a reckless speed, when others were neglected,[2] was like making the remedy worse than the disease.

In pursuance of their new policy, the Government of India submitted a detailed programme for the sanction of the Secretary of State[3]. It was arranged in two schedules A and B. Schedule B contained 34 "productive" lines covering 3,482 miles. These were to be left entirely to private enterprise. Schedule A contained 30 lines covering 3,896 miles. These were supposed to be "indispensable" for protective or other urgent purposes. For these,

1. Cf. F. S. 1880.

2. e. g. Irrigation works; improvement in agricultural knowledge and methods; development of cottage industries; development of rural credit and so on. If sufficient attention had been paid to these remedies, along with the extention of railways, the benefit to the country would have been real.

3. S. C. 1884, p. 524.

about half the sum was to be borrowed by the State, and the rest by companies with certain terms of guarantee. The whole of this outlay (more than 28 m. £.), was to be incurred in about 6 years. It was also proposéd that in order to meet the interest charges on this outlay, an average annual sum of £200,000 may be taken from the Famine Grant, in addition to the net receipts from the railways.

The Committee of 1884:—The Secretary of State, however, did not sanction these wild schemes, and referred the matter for the consideration of the Select Committee of the House of Commons, which was appointed in 1884, "to inquire into and report upon the necessity for more rapid extension of Railway communication in India, and the means by which the object may be best accomplished, with special reference to the Report of the Famine Commissioners, and with due regard to the Financial condition of India".

Among the grounds on which the rapid extension of railways was urged before the Committee, the following may be noted :—

(1) Protection against Famine.

(2) Development of the internal trade of India.

(3) Recent development of the export trade.

(4) Inducement to improve crops and extend the area of cultivation.

(5) Possible increase in land revenue.

(6) Possible opening of coal fields.

(7) Improvement in the economic and material condition of the people.

(8) The unusual cheapness of railway materials at the time.

(9) Improvement in the credit of the Government of India, in the London Money Market.

(10) Advantages of the agency of companies.

(11) Accumulated experience of railway construction in India.

(12) Better financial position of the Government of India.

(13) Costliness of slow construction.

On the other hand, arguments against undue haste in the extension of Railways were :—

(1) Great financial loss due to the existing railways.

(2) The difficulty of raising money in India. Increase in sterling loans involved additional loss due to the fall in exchange.

(3) Unsteady financial situation of the Government of India.

(4) Great objection against the diversion of the Famine Grant.

(5) Danger in increasing the establishments.

(6) Doubt whether companies would take up the lines under the "limited guarantee" system.

(7) Danger of new taxation on account of extension of railways.

The more important conclusions of the Committee may be thus summarised :—

(1) That the evidence in favour of a more rapid extension of railway communication is conclusive.

(2) That it is desirable to employ both agencies—State and Company—for this purpose; the emulation between quasi-private enterprise and Government working tends to promote economical construction and management.

(3) That certain rules which were laid down should be observed in making contracts with companies, so that a change of system which improved financial results may justify, may not be prejudiced.

(4) That the technical distinction between protective and productive lines cannot be maintained. That railways should be constructed apart from this distination as required; but that the bulk of the lines should be self-supporting. The revolution of policy involved in the entire removal of the existing check upon the construction of unremunerative railways as suggested by the Government of India, cannot be approved.

(5) That the amount proposed to be spent by the Government of India in the next six years is moderate.

(6) That though it is desirable to borrow in India only, the Secretary of State should not hesitate to borrow in England for the completion of the works in question.

(7) That the proposed capitalisation of a part of the Famine Grant for the new railways, is entirety contrary to the purposes for which the fund has been created.

(8) That the present limit of borrowing, 2·5 m. £. for Public Works may be safely enlarged, but the full responsibility of deciding upon the amounts to be borrowed every year should rest with the Secretary of State.

Thus, though the new policy of the Government of India was not approved in its entirety, their programme of railways for the coming six years was in effect passed. The rigid rules of 1879 were relaxed, and we shall at once see that the Government were not slow to read into the report of the Committee ideas which suited their own inclination.

On a review of the report of the Select Committee, the Government of India ignored[1] the criticism levelled against their policy of 1883, and came to the comfortable conclusion that their original proposals (in Schedule A, relating to the "indispensable general railways") may well be deemed to fulfil the condition laid down by the Committee that "the bulk of the lines made should be

1. Despatch 22-9-84, P. P. 113 of 1885.

self-supporting". Accordingly, they asked for permission to borrow the necessary funds for their schemes.

Moreover, in the meanwhile, a new complication had arisen. The influence of European politics was felt in India. The menace of a Russian invasion through Afghanistan became the keynote of the policy of the Government of India in many departments. Greater friendly relations had to be developed with Afghanistan ; the strength of the army was to increased, and the North-West Frontier was to be strengthened by a system of strategic railways, fortifications, and roads.

With this view, the Government of India worked out a programme of strategic railways estimated to cost more than 5 m. £.[1] They had now to provide for two evils, famine and complications on the North-West Frontier. They assumed that the protection from both should proceed concurrently, and to the full extent necessary in each case. They saw a difference in the proposed outlay on these strategic railways, and in the capital which was to be invested in the "indispensable" general railways. The latter would become indirectly productive by providing protection against famine, the former would be an entire burden. On these grounds, the Government of India considered the proposed outlay on strategic railways to be on a distinct basis by itself, and wanted to provide for it by a separate terminable loan[2].

The Secretary of State, however, wisely refused[3] to acknowledge this distinction and treated both the questions—(1) that of the "indispensable" railways, and (2) that of the "frontier" railways—as forming one comprehensive

1. Ibid p. 5.

2. This is an instance of the tendency of the Government of India to embark upon schemes involving large outlay without due regard for financial considerations. The Finance Member wrote a minute of dissent against the proposals for separate borrowing.

3. Despatch 27-11-1884, P. P. 113 of 1885.

scheme for the extension of railways in India. With regard to the frontier railways, he agreed that they should be completed with the utmost speed consistent with economy of construction, but that their cost should be provided in the first instance from revenue, failing which recourse should be had to borrowed money.

With regard to the general scheme of "indispensable" railways, he complained that "Your Consideration of the Report of the Select Committee has not led you materially to modify the views that you had previously expressed." However, the repeated requests of the Government of India for increased funds had made some impression, and he had now to agree grudgingly to a larger outlay—350 lakhs—on Public Works. He said[1]—"In view of the requirements that you have now brought to notice, I sanction, for the present, the extension of the maximum limit of borrowing to 350 lakhs in any one year, which seems to me the extreme limit to which it is prudent to pledge our resources for such purposes; and accordingly this amount must be held to cover all the expenditure of the Public Works Department from borrowed money, whether for ordinary railways and irrigation, open lines, arrears of previous grants, protective works, frontier communications, or any other purpose, while lapses in previous years should only be subsequently made good from the balances if that is practicable without unduly reducing them; and no resort must be had to borrowing unless the amount cannot be provided from revenue." This rule was to guide the action of the Government of India in future years, and it was accepted as such by them.

It is curious, however, in face of such a clearly worded rule, and the other instructions conveyed along with it, the Government of India persuaded themselves to the belief that they were authorised to consider any surplus of revenue over expenditure, as primarily applicable to

1. Ibid, p. .

meeting the new charges on account of Public Works, *in addition to* the limit of 350 lakhs. In the forecast of railways that they prepared, they proceeded on the assumption that the amount of money at their disposal would be 380 lakhs–280 lakhs from borrowed money, 50 from the Famine Grant, and 50 from ordinary revenue.[1] They further requested the Secretary of State that in case it was not possible to allot 50 lakhs from revenue, they may be permitted to raise the sum by loan, so that the forecast may be executed within the period of six years. The Secretary of State, however, adhered to his original instructions, and the efforts of the Government of India to borrow extensively and to spend at an extravagant rate, were checked for a time.[2]

Soon after this, special military preparations were made on the North-West Frontier, involving very large expenditure, and in view of this, economy had to be enforced in all departments. But in spite of this, the Public Works estimates for 1884 and 1885 were greatly in excess of the new limit, and the attention of the Government of India was once again drawn to this fact.[3]

In their despatch of 22-9-1885, however, the Government of India made fresh proposals on the plea of altered conditions. The new forward policy on the North–West Frontier had permanently increased the military budget by 1 m. £ to 1. 5 m. £. At the same time the importance of hurrying on the construction of frontier railways, as well as that of frontier and coast defences was felt. Besides, the scheme of the "indispensable" general railways, which had been so recently launched was far from completion; and it was thought that it should be carried

1. Despatch, 3–3–1885, W. O. II p. 111. Out of 350 lakhs of borrowed money 280 were for railways and 70 for irrigation works.

2. Despatch 30–4–1885, W. O. II. p. 113.

3. Ibid, despatch 27-8-1885.

out at a fair speed, irrespective of the new additional burdens. In spite of the imposition of the Income Tax (1886), the Government were not in a position to spare money from revenue for Public Works of any description. This was then an opportunity for the Government of India to push forward their favourite schemes of extensive borrowing and of capitalising a portion of the Famine Grant.

They worked out a new programme[1] of Public Works for the coming six years, the chief features of which were :—(1) that 330 lakhs—280 out of borrowed money and 50 from the Famine Grant—be utilised for Famine protective railways, frontier railways, and frontier and coast defences, subsequent to the year 1886; (2) that in each of the years 1885 and 1886, there should be a special expenditure of more than 500 lakhs; (3) that in addition to this, the refunds available from certain companies be utilised for posecuting the general scheme of railways; (4) and that a portion of the Famine Grant be diverted to the payment of guaranteed interest to the Indian Midland and the Bengal-Nagpur Railway Companies.

We have seen up to now, that proposals of a similar nature were often disallowed by the Secretary of State. On this occasion, however, the Secretary of State thought that the course suggested by the Government of India was rendered necessary by the importance of rapidly constructing the works already begun, especially those for the protection of the country against the risks of war or famine, and therefore he did not withhold his sanction.[2]

But their success on this occasion, emboldened the Government of India to set aside the general rule in the case of the year 1887 also, for which year they wanted to provide for an outlay of 499 lakhs. The Secretary of

1. Ibid, despatch 22-9-1885.
2. Despatch 10-12-1885, Ibid, p. 128.

State, however, was alive to the fact that an unusually large expenditure had been undertaken for railway construction in the last few years; that the Famine Grant had disappeared; and that fresh taxation had been imposed. He therefore reduced the proposed outlay for 1887 to about 400 lakhs. The situation proved so bad, that the actual expenditure was 287 lakhs only.

With falling exchange and with complications in Burma, the difficulties of the Government increased, and it was then only realised that the public works programme had been framed at an extravagant rate. In his despatch of 12-4-1888, the Secretary of State observed[1]:—"There can however be little doubt that the construction of railways generally would not have been carried on so rapidly, if the present financial position had been foreseen; and great caution will be required in adding to the liabilities which are now pressing on the Government on this account".

But this caution was soon forgotten. During the years 1889 and 1890, the Government of India realised large surpluses of revenue over expenditure. Because of this and other temporary causes, they were able to provide for Public Works without borrowing. This prospect encouraged[2] the authorities to reconsider the limit of 350 lakhs for Public Works expenditure. The decision arrived at was that this limit should be maintained so far as the construction by the direct agency of the state was concerned, but the Government of India were allowed to determine whether they could increase the grant by 50 lakhs to encourage companies to undertake new lines of railway and extensions.[3]

Soon after this, the Government of India framed another scheme, which in its audacity excelled all its predecessors. At a time when the finances were in a very critical condition, when the rupee had almost reached its

1. Ibid, p. 141.

2. Despatch, 16-9-1892, Ibid, p. 151. 3. Ibid. p. 153.

lowest level, when the Government was about to have recourse to Import Duties, for want of any other source of revenue, it is with great surprise that we find the Government of India asking,[1] "that the grant for public works not chargeable to revenue be for the present fixed at Rs. 500 lakhs, less such amounts as may be spent on protective railways, or protective irrigation works from the grant for Famine Relief and Insurance." The result of this would have been that, in a year of difficulty, when there was no surplus of revenue, and when the available funds were needed for famine or other exigency, the Public Works Department, would still have a claim that an exceptionally large loan should be raised to meet its requirements. Once again, the Secretary of State intervened, and the Government of India received a temporary check.[2]

Within a very short time, however, early in 1897, the Government of India succeeded in getting sanction for a highly ambitious programme of railway construction. It amounted to 28 crores (afterwards increased to 29. 6 crores) and was intended to be spread over three years, 1896 to 1898.[3] The amount required was beyond the capacity of the Indian money market and the necessary loans were raised in England either directly by the Secretary of State or by companies acting under agreements with him.

Recent Railway Policy.

We have surveyed so far the development of railway policy in the last century, chiefly in its financial aspects. We have seen on the one hand, how various mistakes were made in the early progress of railways in India, and how on the other, the Government of India made determined efforts to spend large sums of money on railway construction—larger than the Select Committees of the House of Commons recommended and the Secretary of State sanctioned from time to time. It has also been shown that in

1. Despatch, 1-11-1893. Ibid. 2. Despatch 8-2-1894, Ibid.
3. Cf. F. S. 1896, 1897 and 1898.

these efforts the Government of India utilised to a large extent their ordinary revenues for capital expenditure, in addition to loans. This was done partly by appropriating portions of the Famine Grant, and partly by direct appropriation from revenue.

From the beginning of this century, we notice a distinct change in railway policy. The long standing exchange trouble had come to an end in 1898; the early years of this century showed a series of large surpluses in the finances of the Government of India. It was believed that an era of prosperity had begun. The dimensions of Indian trade were growing, and efforts were being made to develop Indian industries and agriculture. The requirements of these growing commercial and industrial activities —internal and external, on the one hand, and the investigations of the Famine Commissions at the end of the last century on the other, showed the vast possibilities of railway expansion in the country. In addition to this, the Government found a welcome relief in railway receipts which now brought a net gain to the state instead of the usual loss. All these causes combined to give a great impetus to the idea of rapid railway extension in India, to such an extent, that we shall find that whereas till now the Government of India wanted to spend more than the sanctioned amounts, the sanctioned amounts were now so large that the Government could not spend them all. It may be noted that there were not a few critics like the late Mr. Gokhale who were against such large programmes of railway construction. We shall now give a brief survey of this new tendency and its results.

The Robertson Report:—In 1901, a special officer, Mr. Robertson, was appointed to inquire into the problem connected with Indian Railways. Among the recommendations made by him, those relating to the creation of a Railway Board, and to the financial aspects of railways are of importance for our present purpose.

In place of the Public Works Department, Mr. Robertson recommended that a body of practical businessmen with full authority to manage railways on commercial principles should be appointed. The functions of this body, known as the Railway Board, were to be deliberative and administrative. The former included the preparation of the railway programme, and the control of railway policy and finance subject to government sanction. The second included detailed supervision over the construction of new lines, improvement in management with a view to economy and public convenience, questions relating to through traffic, settlement of disputes between different railways, etc. The board was to consist of a chairman and two members.

Mr. Robertson was decidedly in favour of a more rapid progress in the construction of railways, but did not consider it proper to fix the limit as to the number of miles to be constructed annually. The only limit which was necessary according to him was the practical one of the capacity of the money market to supply the necessary funds. In order to prevent the railway liability falling on the general revenues of the country, as had happened in the past, he further recommended the creation of a railway fund to be applied in providing improvements on state railways aud towards the construction of new lines. This fund which was to be created from the surplus profits of all railways in India, after payment of the charges for interest, and redemption of capital, was to be kept apart from the general finances of the government.

The Mackay Committee :—The Railway Board was appointed, but the railway fund was not created[1]. In a few years, it was found that the progress and equipment of

1. The creation of a railway fund would have meant in practice the separation of railway finance from the general budget, which was recommended by the Acworth Committee and which has now been accepted by the Government, though the details are still to be worked out.

Indian railways were not equal to the requirements of trade, and in 1907, a committee presided over by Sir James Mackay (now Viscount Inchcape) was appointed to reconsider the question of Indian railway finance. In view of the conditions then existing, the Mackay Committee recommended that the amount of capital that the Secretary of State might expect to provide annually for capital expenditnre in India be placed at 14 m. £., out of which 12½ m. £. were meant for railways, and the remaining 1½ m. £. for irrigation works. It was expected that it would be possible to raise 9 m. £. a year in the Umited Kingdom, and 5 m. £. in India. They also recommended that " it would be advantageous were the government to endeavour to realise a larger annual surplus than has been customary, that it may be possible to raise larger rupee loans than it has hitherto been usual to place on the Indian market, and that in course of time, when the Gold Standard has reached an amount beyond which it may be considered unnecessary to go, the whole of the profit derived from coinage might with advantage be utilised for expenditure on railways ".

The implications of these recommendations were far reaching. A larger annual surplus could be obtained only by keeping taxation at a high level. The profits on the coinage of rupees were meant for supporting exchange, and a diversion from the Gold Standard Reserve was not justified before an occasion had arisen to determine the possible demands on it. In fact, such a diversion of more than a million pounds was made on the recommendation of this committee, but the exchange difficulty of 1907-08 made the authorities wiser. It may be noted that Lord Inchcape was in favour of a capital expenditure of 20 m. £. instead of 12½ m. £. or Rs. 18·75 crores which was recommended[1].

1. Cf. Lord Inchcape's evidence before the Acworth Committee, quoted on p. 21 of the Acworth Report.

The Government of India were however unable to approach the standard recommended by the Mackay Committee for railway capital expenditure as can be seen from the following figures[1] :—

Year.	Capital programme Rs. Crores.	Year.	Capital programme Rs. Crores.
1908	15·00	1915	12·00
1909	15·00	1916	4·50
1910	16·30	1917	5·40
1911	14·25	1918	6·30
1912	13·50	1919	26·55
1913	18·00	1920	21·98
1914	18·00	1921	17·82

The Acworth Committee :—In addition to this inadequacy and irregularity in the allotments for railway capital expenditure, there were other reasons, which marred the progress of railway construction in India. The way in which each railway administration submits every year its own programme of expenditure for the coming year to the Railway Board, the various stages through which the programmes pass to and fro between the railway administrations, the Railway Board and the Finance Department, the manner in which the final grant is made at the end of March just before the new financial year begins, the way in which unexpended portions of the allotment for any railway are allowed to lapse at the end of the financial year, and the way in which frequent changes are made in these arrangements throughout the year because of other financial considerations—all these defects have been discussed in detail by the Acworth Committee.[2] They rightly observe that until the whole financial system regarding railways is radically reformed, it is not possible to improve and enlarge the railway service in India, and

1. Taken from Acworth Committee Report, para 34.
2. Report, pp. 21-25.

to make the railways yield the necessary financial return. The essence of this reform according to the Acworth Committee is contained in two things[1] :—

"(1) the complete separation of the Railway Budget from the general Budget of the country, and its reconstruction in a form which frees a great commercial business from the trammels of a system which assumes that the concern goes out of business on each 31st of March and recommences *de novo* on the 1st of April; and (2) the emancipation of the railway management from the control of the Finance Department".

The Acworth Committee condemn the inability of Indian authorities to appreciate the position of Indian railways as a commercial undertaking, and they emphasise the distinction between the functions of the Government as a government and as the owner of a great commercial undertaking. The backward state of India compared with other countries in the matter of raising new capital for the improvement and development of railways, and the gross inadequacy of maintenance and renewals, which have fallen into serious arrears, are attributed to the want of a proper appreciation of railways as a commercial undertaking.

The remedy which the Acworth Committee recommend, *viz.*, the separation of the railway budget from the general budget, would mean that subject to the general control of Government, the Railway Department would in practice, manage its own internal finances, without interference by the Finance Department, and would be free to dispose of the railway surplus either for new capital expenditure or for the reduction of rates or for the improvement of services etc. This railway surplus is the balance which the Railway Department may realise after meeting working expenses and the interest charges on railway debt as well as annuities for the purchase of railways from companies. Even if in cases of emergency, the government imposed a surtax on railway traffic or levied a contribution on this surplus, the independence of the railway department in its

1. Report, para 58.

own affairs will be secured. This idea of separating the railway budget is not entirely new. It was discussed as early as 1899, and in 1900 Lord Curzon wrote a minute on this question generally favouring the separation. It was again raised in 1906 by the Commerce Member of the Viceroy's Council. The administrative change which the Acworth Committee recommend to put this idea into practice is the appointment of a separate member in charge of communications, under whom there will be a responsible officer in charge of railways called the Chief Commissioner of Railways. Recently, a rearrangement of portfolios in the Viceroy's Council was made; the railway portfolio is in charge of the Commerce Member. The Chairman of the Railway Board is now replaced by the Chief Commissioner of Railways, who is solely responsible for advising the Government on railway policy, and cannot be outvoted by his calleagues on the Railway Board.

The Railway Finance Committee.—In accordance with a resolution of the Legislative Assembly in September 1921, a committee of both houses was appointed to consider this question of separation of railway from general finance, and the capital requirements of railways during the next ten years.[1] In view of the financial position of the Government of India, and the reliance which they had been accustomed to place on railway surpluses as an addition to the general revenues since 1905, the committee came to the conclusion that the question of separation was outside the domain of practical politics. They were of opinion that this question might be reconsidered three years after when the financial situation might be expected to improve. The other recommendation regarding capital requirements may be thus summarised[1] :—

"(*a*) that the programme should be prepared on a five years' basis, the provision of each quinquennial period being considered about two years before the termination of the existing period;

1. This is known as the Railway Finance Committee.

(*b*) that there should be no lapse of money voted for any one year but not spent within that year, such sums being carried on to the credit of railway administrations up to the limit of the total amount fixed for the quinquennium ;

(*c*) that the finance programme should be strictly adhered to subject of course to the understanding that a War or other unforeseen contingency radically disturbing the money markets render it necessary to curtail the programme in any one year ;

(*d*) that the programme for capital expenditure during the next five years should be fixed at Rs. 150 crores ; and

(*e*) that this sum should be devoted to the rehabilitation and improvement of existing lines (paramont stress being laid on the improvement of the conditions of travel of third class passengers) and to the completion of lines already under construction. "

In March 1922, the Legislative Assembly, while reserving their opinion regarding the separation of railway from general finance, accepted the above proposals for a capital programme of Rs. 150 crores to be spread over five years. From the point of view of railway development this was advantageous, in as much as the railway authorities were now in a position to plan ahead, and the old system by which unexpended grants were allowed to lapse every year, would be no longer in operation.

A capital programme of Rs. 150 crores was prepared soon after, allocation having been made to different existing railways according to their requirements. The Inchcape Committee found that Rs. 67 crores of this proposed expenditure had been allocated to unremunerative lines, which in their opinion was not legitimate under any circumstances. They were in favour of further expenditure on remunerative lines or on the construction of new lines which promised an adequate return. In order that financial considerations be given due weight in capital investments of this magnitude, and in the management of the increasing amounts of receipts and working expenses of railways, the Inchcape Committee further

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1, Railway Administration Report, 1921-22 p. 4.

recommended the appointment of a Financial Adviser to the Chief Commissioner. This recommendation has been accepted.

In view of the great arrears of renewals in recent years, the question of creating a separate depreciation fund for this purpose has become important. The existing system of providing for depreciation by a grant from revenue for expenditure on renewals and replacements is obviously open to objections. The Railway Finance Committee left this question for future expert consideration and a small committee was appointed in the latter part of 1922 for this purpose. The conclusions of this committee were :—

"(1) that in the case of State-owned railways all that is necessary, in view of their permanent character, is to provide not a regular Depreciation Fund in the strict commercial sense of the term, but only a reserve sufficient to meet the cost of renewals as they fall due from time to time ;

(3) that the amount to be provided as reserve should take into account not the original cost of the wasting assets but the replacement cost ; and

(3) that the rates of annual contribution to the reserve should be so fixed as to apportion the charge equitably among the tax-payers of different generations."

Unlike the Acworth and Inchcape Committees, it is obvious that the depreciation fund as proposed to be created by this committee will not fulfil ordinary commercial principles by which a depreciation fund ought to make such provision that by the time the useful or economic life of an asset has been spent, its full original cost (less scrap value) should have been written off to revenue.

Separation of Railway Budget :—The question of the separation of railway budget from the general budget again assumed importance this year, when the Government proposed a scheme for the acceptance of the Assembly at

the time of the Budget session in March. The final decision regarding the scheme has been postponed to the September session of the Legislature. The effects of the proposals may however be noted in the words of Sir Basil Blackett[1] :—

" In the figures of the general Budget as presented, the return which we expect to receive from our investment in the Railways is included in accordance with the new settlement new proposed. The taxpayer, instead of paying the whole of the expenses and taking the whole of the incomings of the railways, will enter into a bargain with the Railways to receive from them (a) a sum sufficient to pay in full the interest on the capital he has invested in the commercial lines, (b) an additional dividend of five-sixths of one per cent. on that capital and (c) a share of one-fifth of any surplus earnings that may be secured in addition. In return, the railways will be left to carry on their business with the right to retain any surplus over and above what they pay to the Government and to apply it to railway purposes, first of all for creating reserves and then by using those reserves to improve the services they render to the public and reduce the price which they charge for those services. The Government of India and this Assembly will remain in complete control of the Railway Administration just as they now are. That control will be in no way impaired. But there will no longer be any need to consider from the narrow standpoint of their effect upon the general revenues in a particular period of twelve months, that is in a particular Budget period, proposals by the Railway authorities which, though excellent and desirable in themselves, might, under the present system, upset the apparent equilibrium of the Budget for the year. The taxpayer will secure a regular and increasing contribution from his investment, largely independent of fluctuations in railway receipts and expenditure, and the railways will be able to spend money according to the real needs of the railway system, unimpeded by the necessity for conforming to the vagaries of Budget figures and the requirements of Budget accounting. The Railways will become a real commercial undertaking managed on commercial lines, and the taxpayer will get the benefit of commercial accounts and management ".

1. Budget Speech, para 40.

Railway Ownership and Management.

From 1869, the state undertook the work of railway construction in India, and the management of the new lines built by Government in the 10 years after this date was also undertaken by it. In connection with the original guaranteed companies, the Government had the right to buy them out under certain conditions. The first occasion to exercise this right arose in 1879, and in this and subsequent cases, the right was exercised with the consequence that the state became the owner of these railways in course of time. The purchase price was paid in different forms—in cash, in India stock, or in terminable annuities. For example, the contract with the East Indian Railway came to an end in 1879. The Company's share was valued at £125 per £100; the purchase price thus amounted to £32,750,000 which is being paid by means of a terminable annuity of £1,473,750 payable till 1953.

By the year 1880, however, "the current of opinion in favour of direct state management had spent its main force". We find, therefore, that though the state acquires the ownership of the guaranteed companies in course of time, it does not undertake their management, as a rule. Besides, by this time private enterprise had again been allowed to enter the field of railway construction in India. The present position is that though the state is the owner of all the lines, in most cases their management is in the hands of the old companies, or of new companies created on the basis of the old, or specially brought into existence for the purpose. For example, when the East Indian Railway was purchased in the manner described above, shareholders representing one-fifth of the purchase price (£6,550,000) were constituted into a company with the same name. They agreed to postpone their annuity and in return were given the management of the railway. They have a guarantee of 4 per cent. on the capital, and a share of the surplus profits in addition. We see,

therefore, that these managing companies are not owners like their predecessors; they are neither joint owners with the Government; the state is the sole owner of the railway property, and the interest of the companies in it is comparatively very small. The boards of these managing companies are in London, and the demand for the transfer of control to India has been insistent for a long time past. The Acworth Committee came to the conclusion that "the advantages of English management are now outweighed by the great disadvantages of absentee control, and the difficulty of keeping in close touch with the modern social and trade conditions of India", and they unanimously recommended that "the English domiciled guaranteed companies should cease to exist at the termination of their present contracts".[1]

The second alternative of management by a combination of English and Indian Companies was also ruled out by the committee. They were, however, divided in their final recommendation on this point; the Chairman and four other members including Sir Purshottamdas Thakordas and the Hon. Mr. Sastri were in favour of state management and the remaining five members reported in favour of management by Indian domiciled companies.

The general proposition that on the whole company management was better than state management was accepted by the chairman and his group. But they rightly pointed out that the existing English companies had long ceased to be companies in the true sense of the word. The companies

1. The contracts terminate as under :—

1924	... East Indian.
1925	... Great Indian Peniusula.
1928	... Burma Railways Company.
1931	... Assam-Bengal.
1937	... Madras and Southern Maratha.
1941	... Bombay Baroda and Central India.
1945	... South Indian.
1950	... Bengal-Nagpur.

were not the owners; the management was only nominally entrusted to them because the Government had left no real initiative in their hands. At the same time, the Government did not feel it necessary to take the initiative themselves. They came to the conclusion "that the guaranteed companies do not possess the essential attributes which belong to ordinary companies. To claim that, because ordinary companies possess the advantages of energy, enterprise, and so forth, therefore companies of the nature which we have described may be expected to possess these advantages, is to be misled by a mere name." It was further pointed out that the establishment of companies with real independence was not possible in the existing circumstances of India, nor was such a thing proposed by any one. The proposal of the other half of the committee to create Indian domiciled companies involved the retention of the present system with all its evils, chiefly the division of responsibility between the Government and the boards of directors.

This proposal to establish boards in India was rejected by the Chairman and his colleagues on two grounds, (1) that they would succeed to the position hitherto occupied by the boards in England which they regarded as fundamentally incompatible with successful administration, and (2) that Indian public opinion was against company management. Their conclusion on this point is clear and emphatic:—"We therefore do not hesitate, though most of us have approached the question with a strong prepossession in favour of private enterprise as a general proposition, to recommend that in India the state should manage directly the railways which it already owns."

In spite of this authoritative conclusion of Sir William Acworth and his colleagues, and in spite of the general desire of the Indian public as expressed in and out of the Legislature for many years past, in favour of state management, it is curious to find that the Government is still

undecided on this point. The Administration Report of Indian Railways, 1922-23, observes :—

"When the question was debated in the Legislative Assembly in February 1923, the non-official Indian Members were almost unanimously in favour of State management and indeed were able to carry a resolution recommending the placing of the East Indian Railway and the Great Indian Peninsula Railway under state management at the close of their present contracts. The Government of India, however, expressed themselves as being so convinced by the almost universal failure of this method in other countries that they proposed, while accepting the necessity for taking over the management of the East Indian Railway and the Great Indian Peninsula Railway to continue their efforts to devise a satisfactory form of Company domiciled in India to take these railways over eventually on a basis of real Company management. The position at the close of the year under review was that arrangements had been instituted for bringing both these railways under state management at the termination of their contracts."

Financial Results of Railways.

Capital Expenditure :—Up to the end of the financial year 1922-23,[1] the total capital expenditure on all railways amounted to 680 crores of Rs. with a route mileage of 37,618 miles of railway. Out of this, the state contributed 603 crores of Rs. with a route mileage of 27,005 miles of railway. This latter figure includes the capital expenditure directly incurred by the state, and the premia paid in the purchase of companies' lines. The rest of the capital expenditure has been provided by Indian states, private companies, and district boards.

The direct capital expenditure on railways by the state has been provided from three sources, (1) money raised by loans ; (2) a part of the Famine Insurance Grant (3) and money charged to revenue in addition to the Famine Grant. No expenditure for railways has been made from the last two sources since 1914. Even during the third period the

1. The latest year for which complete figures are available at the time of writing.

expenditure from these sources was comparatively small. During the second period, each of these sources was availed of for railway capital expenditure to the extent of Rs. 7·2 crores. Up to 1913 these two sources together contributed 15·2 crores of rupees towards railway construction. Since the Reforms, the Famine Grant is a provincial subject, and we do not now find any capital expenditure under these heads in the central accounts[1].

The chief source of capital expenditure on railways has evidently been borrowed money. The extent to which expenditure was incurred in this way during different periods is shown in the following table[2] :—

			Rs.
1867–1874	...	...	8,62,10,000
1875–1898	...	...	78,25,40,000
1899–1913	...	...	1,54,50,00,000
1914–1920	...	...	78,50,00,000
1921–1923	...	...	83,00,00,000
			4,02,87,50,000

1. Capital expenditure on Famine Railways met from Famine Grant :—

			Rs.
1875–1898	...	...	7,24,00,000
1899–1913	...	...	59,70,000
			7,83,70,000

Capital expenditure on railways charged to revenue in addition to Famine Grant :—

			Rs.
1875–1898	...	...	7,22,90,000
1899–1913	...	...	22,65,000
			7,45,55,000

2. These figures show only the direct expenditure incurred by the state out of loans. Liability and debt incurred in purchase of railways are not included in this.

Up to the end of the last century, as we have seen above, the Government of India were anxious to embark on large schemes of railway extension in India, though their ambitious programmes were very often checked either by the Secretary of State or by famine or by financial losses due to the exchange trouble in the second period. The way in which the Government of India were struggling for funds for this purpose before 1898, may be seen from the fact that during the second period in addition to the 78 crores of capital expenditure incurred from borrowed money, they availed of the two other sources to the extent of Rs. 14½ crores as mentioned above. It is obvious that this sum was drawn in one way or another from revenue.

With the disappearance of the exchange trouble in 1898, with the large surpluses which the Government derived during the early years of this century, which made it possible for them to remit taxation, and with the increasing commercial and industrial activities of India, the former ideas of spending for railways on a moderate scale gradually gave way, in spite of the criticism of Indian leaders like Mr. Gokhale. This tendency got substantial support at the hands of Mr. Robertson (1901–03), and the Mackay Committee (1907). It is reflected in the above table from which we see that the state raised by way of loans Rs. 154·5 crores for railway capital expenditure during the third period. In the fourth period, the average annual expenditure is nearly the same as in the preceding period, though on account of the War, it was not possible to embark on railway construction to the extent recommended by the Mackay Committee. As already explained, in order to make up for the arrears of the war period, it has been recently decided to spend Rs. 30 crores a year on railways.

Railway Revenue Account:—So long as the separation of the railway budget from the general finances has not taken place, the ordinary finances will be affected by the

large figures of what is known as the Railway Revenue Account. The net receipts from railways are shown on the credit side of this account. This figure is arrived after deducting from gross receipts the working expenses and surplus profits given to companies, and adding the government share of surplus profits and repayment of advances of interest by subsidised companies. As against this, the expenditure side shows interest on debt, annuities for the purchase of railways, sinking funds, and other charges which the state has to bear in its relation to railway companies. The magnitude of these two items with the corresponding result, that is either a loss or a gain to the general revenues, can be seen from the following table, which gives these figures for a few selected years, and also for the different periods :—

Railway Revenue Account, (in crores of Rs.)

Year	Receipts	Expenditure	Net gain or loss
1875	4·6	6·1	− 1·5
1898	22·7	23·7	— 1·0
1913	26·4	19·2	+ 7·2
1918	37·4	21·6	+15·8
1920	25·0	19·4	+ 5·6
1921	15·2	24·3	— 9·1
1222	26·8	25·6	+ 1·2
Average	Second period		— 1·3
,,	Third ,,		+ 2·5
,,	Fourth ,,		+10·1

It is evident that up to 1898, the general revenues suffered on account of the railway transactions of the Government. Since the beginning of this century, however, they have been getting a substantial surplus from railways in aid of the general revenues, the largest amount received in this manner in any one year being Rs. 15·8 crores in 1918. This tendency received a set back in 1921 in which year there was a net loss of more than 9 crores of Rs. This was due partly to a great increase in working expenses which amounted to more than 76 per cent. of the gross

earnings in that year, as compared with 52 per cent. in 1913 and 65 per cent. in 1920; and partly to the trade depression which began in that year. The position improved in the next year when there was a gain of Rs. 1·22 crores.

Loss on Guaranteed Interest:—The profits from railways referred to above which accrue to the Government since the beginning of this century, are partly due to those railway companies, which owed their existence to the guarantee system, and which taken collectively were a heavy drain on the general revenues since the beginning of railway construction up to the end of the last century. We have discussed the evils of the guarantee system in an earlier part of this chapter; figures of loss or gain to the state from guaranteed companies are given in detail in the appendix. According to the Acworth Committee, the total loss to the state by way of guaranteed interest amounts to £51½ m. as against a total gain of £44·7 m. in recent years up to 1918.

Another table in the appendix shows the *financial position* of all railways in India—those belonging to the state, to companies, to native states and to local bodies. The following abstract table shows the financial position of all railways for a few selected years:—

Year. (1)	Mileage. (2)	Total capital crores of Rs. (3)	Gross receipts. crores of Rs. (4)	Working expenses crores of Rs. (5)	Percentage of (5) to (4) (6)	P.C. of net earnings to (3) (7)
1868	4,008	84	5·6	3	54	3·06
1891	17,277	221	24	11	47	5·7
1901	25,331	339	33	15	46	5·2
1911	32,839	450	55	29	52	5·8
1921	37,266	648	93	71	76·2	3·4
1922	37,618	669	106	93	69	4·9

As shown above, 669 crores of rupees have been invested in railways in India. In addition to this a large programme of capital expenditure awaits to be executed.

The large sums of money involved in the management of this valuable property is shown above in the increasing magnitude of the gross receipts and working expenses. These latter have greatly increased during recent years affecting the percentage of net earnings to capital outlay in an adverse manner.

IRRIGATION FINANCE.

In an agricultural country like India, subject to great uncertainties and variations in the annual rainfall, the value of irrigation works is the greatest. To meet this permanent difficulty, irrigation works of various kinds have been in existence from time immemorial. There are many examples of large irrigation works undertaken by the native rulers before the advent of the British.[1] The ancient irrigation works of the South of India were a model to the English. Sir Arthur Cotton, the pioneer of irrigation works under British rule, was "merely an imitator on a grand scale, and with considerable personal genius, of the ancient native Indian engineers."[2]

Some of these native works were destroyed by the internal wars before the establishment of British rule, and the number and utility of those that were left was much diminished by want of repairs. The value of such works inherited by the British Government cannot be measured in money. A comparatively small expenditure was incurred towards their repair and extension before the establishment of the Public Works Department in 1854.

The large schemes of Lord Dalhousie for promoting irrigation works with borrowed money were postponed on account of the Mutiny. In 1858, however, pressure was brought upon the Government to promote irrigation by that agency by which they were constructing railways.

1. Imperial Gazetteer III, p. 327.
2. Trevelyan, S. C. 1873, Q. 1547.

Accordingly, the Madras Irrigation Company was formed, with a Government guarantee of 5 per cent upon a capital of one million pounds. This was followed in 1860 by the Orissa Irrigation Company, which began work without guarantee. Unfortunately for India, both these companies proved costly experiments to the state. The Orissa Company soon got into difficulties ; the Government began by giving a subsidy and ended in 1869 by taking over the concern at an exorbitant rate. At the time when the transaction was made the shares of the company were at a heavy discount, and it was notoriously paying dividends out of capital.[1] The Government purchased it at par and gave £ 50,000 in addition as bonus. "In fact, this is an instance of an unsuccessful speculation, turned over to the Government of India, that is, to the the people of India, at a rate which converted it into a highly successful speculation."[2]

The Madras Irrigation Company rarely succeeded in meeting its working expenses. In addition to the guaranted interest, a large sum was advanced to the company free of interest and ultimately it was taken over by the Government in 1882.

With the experience of these failures, it was recognised that the Government must itself undertake the construction and management of irrigation works with borrowed money. This decision was arrived at in 1867, during the time of Lord Lawrence, who applied the same policy at a subsequent date to the problem of railway extension. Irrigation works were henceforward treated as part of the "Productive Public Works", the policy with regard to which has been already discussed at some length.

As we have already seen, the Government of India cocentrated their resources to a great extent on railway

1. S. C. 1871, Q. 9527-8.
2. S. C. 1873, Q. 492.

construction with the consequence that the question of the extension of irrigation works was reduced to a secondary importance. For example, by the end of the first period, a sum of £ 15½ m. was invested in irrigation as against £. 101 m. in railways. In the second period, the average annual expenditure on irrigation works was only Rs. 82 lakhs, whereas that on railways was Rs. 386 lakhs.

The question whether Railways or Irrigation works are more conducive to the wants of India was one of great controversy at one time. It is true that the means of production and distribution should be mutually supplementary, and that improvement in these means should proceed concurrently.[1] The application of this principle would certainly have materially increased the wealth of India. It is evident, however, that up to the end of the second period, this elementary truth was ignored, and railways were built to carry goods which could not be produced for want of irrigation. The natural process was reversed and the inevitable consequence followed. There were not sufficient irrigation works to increase the productive capacity of the agriculturist, who was taxed to meet the guaranteed interest on Railways, for which there was not sufficient work. The evil was much aggravated when with such increased calls on him, in times of famine he was absolutely resourceless. The awakening came very late, when at last the Famine Commission of 1898 recommended that the Famine Insurance Grant should be devoted to the extension of "protective irrigation works" and not of "protective railways."[2]

As in the case of railways, the distinction between productive and protective irrigation works is financial. Those works which are estimated to produce sufficient revenue to cover their working expenses, and interest on capital, within a period of ten years are classed as productive.

1. Imperial Gazetteer IV. pp. 353-4.
2. Report, para 538.

and are financed from loans. Those works on the other hand which are not expected to be directly remunerative in this sense, but the construction of which is thought desirable with a view to protect areas liable to famine, thus reducing the probable cost of direct famine relief in future, are classed as protective. These are financed from revenue, generally from the famine insurance grant. It was not always possible to observe this distinction properly, because several works which were begun as productive works proved in course of time unremunerative, whereas there have been instances of a few protective works (*e. g.* The Swat River Canal), which have yielded a return greater than ordinarily expected on such works. Besides, the limitations imposed on the construction of protective works only from revenue were found to be rigid, as large schemes of this kind could not be undertaken from the ordinary revenue resaurces. The Irrigation Commission of 1901 recommended the abolition of this distinction, and was of opinion that all capital outlay on Major works should be met from loan funds, and that the interest charges on the same, if not covered by the net receipts, should be charged to the Famine Grant.[1]

The Irrigation Commission gave careful consideration to the question of the limit to the expenditure, which Government might incur on the construction of works for the protection of precarious tracts[2]. The system now followed on the basis of their recommendation may be thus described. In any district, in addition to the area already under irrigation, the area which must be brought under irrigation with a view to protect the district against future famines is first estimated. In doing so, the population, and the area which must be irrigated per head of population are taken into account. The latter item usually comes

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1. Report, para 242.
2. Report, chapter, IV.

to about a third to half of an acre. Nextly the annual average expenditure for famine relief in future in that district is estimated, after taking into consideration the cost of famine relief in that area in the past. The conclusion is that the state will be saved the estimated annual expenditure on famine relief if the area as calculated above be brought under irrigation. In other words, if the interest charge on the capital outlay to bring the necessary area under irrigation does not exceed this figure, the Government will be in the same financial position as before. The capital expenditure which the Government may incur on this supposition is called "the direct protective value of an irrigated acre."

Besides this direct protective value of new irrigation works, there are other indirect advantages which may be taken into consideration in justification of capital expenditure on irrigation works. In addition to the increase in the general wealth and prosperity of the tract brought under irrigation, these works affect neighbouring areas by increasing the humidity of the air, raising the level of the underground water supply, and above all by preventing the losses, demoralisation and miseries of famine. Though it is difficult to assign a monetary value to these indirect advantages, the Irrigation Commission recommended that considering all things, it would be permissible to spend up to a maximum of three times its direct protective value as defined above for each irrigated acre. In addition to this, the capitalised value of the net revenue which each irrigated acre is likely to yield in payment for the water supply, may be taken into account in estimating capital expenditure for new works. In the case of every new work, it has to be shown that the total outlay will not exceed the so called "permissible capital outlay per acre", in other words, the total of the items mentioned above.

We have already seen that in the capital transactions of the Government of India, irrigation works occupied a subordinate place as compared with railways during the last century. The recommendations of the Irrigation Commission changed the outlook, and greater attention is now paid to new irrigation schemes. Formerly, protective works were financed from general revenues, chiefly from the Famine Grant, half of which (Rs. 75 lakhs) was ordinarily set apart for protective railways and canals. A greater portion of this sum was usually allotted to railways, but on the recommendation of the Irrigation Commission, it was decided to allocate the whole of this sum to protective irrigation works. In 1910, this sum was found to be insufficient, and a further annual contribution not exceeding Rs. 25 lakhs from the revenues was sanctioned for this purpose. It was however not possible to make use of the total sum of 100 lakhs thus made available ; in 1913 and 1914, 86 and 84 lakhs respectively were spent. During the war, the expenditure had to be greatly curtailed.

It may be noted here that recently, in 1922, the distinction between productive and protective works was abolished, though the recommendation to that effect was made by the Irrigation Commission, twenty years ago. Works of importance will now be financed from loan funds.

The total capital invested in irrigation works rose from Rs. 42 crores in 1900 to Rs. 78 crorers in 1920, which shows an increase of Rs. 36 crores in twenty years. The Irrigation Commission suggested a rough programme for a period of twenty years to commence about two years after the date of their report (i. e. in 1905), and estimated an expenditure of Rs. 44 crores for the same. The following figures show the direct state expenditure on irrigation works from borrowed money, and from the famine grant during the different periods. The impetus given to the

construction of irrigation works by the report of the Irrigation Commission is visible in these figures :—

Years.	Capital expenditure on irrigation works from loans by the state lakhs. Rs.		Famine Grant. lakhs. Rs.
1867-1874	7,90		......
1875-1898	17,87		1,91
1899-1913	19,35		6,16
1914-1920	5,30		4,10
	50,42	+	12,17
	Total		=62,59. lakhs of Rs.[1]

The financial transactions involved in irrigation works of all kinds are shown in detail in a table in the appendix. Compared with railways, the working expenses on irrigation works in their relation to gross receipts are lower, averaging about 45 per cent. in recent years. The percentage of net revenue to capital outlay on irrigation works which is on an average a little more than 6 in recent years, is more steady than the corresponding percentage for railways.

This apparently satisfactory result is however fictitious. The irrigation receipts are swelled by an item called "Portion of Land Revenue due to Irrigation." Certain portion of the Land Revenue is said to be due indirectly to Irrigation works constructed by the state. An attempt is made to credit the Irrigation Account with this portion of the Land Revenue. In the Irrigation Account, we have direct receipts which are derived from water-rates paid for the use of water. In addition to these, we have this item of "Portion of Land Revence due to Irrigation." An estimate is made of the increase in Land Revenue due to the vicinity of canals or tanks ; this is deducted from Land Revenue and credited to the Irrigation Account. This

1. This is the expenditure by the state only. If we add the expenditure by the early compaines, the figure would be larger, and amount to about 78 crores up to 1920.

system was begun in 1877 and exists till to-day. This is undoubtedly an arbitrary deduction from Land Revenue, the effect of which is to introduce an unnatural element in the accounts. The Land Revenue is shown at a smaller figure, and the Irrigation receipts are swelled. On the one hand the Government can say that the increase in Land Revenue, that is, the burden on the agriculturist is smaller than it really is; on the other, they can show that their undertakings in the Irrigation Department yield large receipts and hence are very successful. The Departments of a state are interdependent. The success of each department increases in a greater or less degree the success of all others. For example, the Post Office facilitates the work of businessmen. By consequent increase in business activities, the state derives additional revenue. But we do not credit the Post Office with any extra receipts out of this additional revenue. If such a procedure were adopted, there would be no end to it; it would result only in financial inaccuracy and complexity. We have, therefore, restored this item of "Land Revenue due to Irrigation" to Land Revenue proper, and made a corresponding deduction from the Irrigation receipts.

In consequence of this adjustment we find that the Irrigation Account shows a net burden to the state. The detailed figures are given in the appendix; we give below the figures for a few selected years and for the different periods:—

(In Crores of Rupees).

Year	Receipts	Expenditure	Portion of Land Revenue due to Irrigation.	Real net charge
1875	·6	1·7	——	1·1
1898	3·4	3·2	1·0	0·8
1913	7·0	5·2	2·5	0.7
1920	8·8	7·0	2·8	1·0
		Average net burden		
1875 — 1898		...	...	1.1
1898 — 1913		...	...	0·75
1913 — 1920		...	...	0·8

Under the Reforms, Irrigation is a provincial charge, and it seems that the Provincial Governments are in earnest regarding their irrigation schemes, *e. g.*, the Sukkur Barrage and canals project in Sind, the Sutlej valley project in the Punjab, the Lower Sarda canal in the United Provinces and so on.

POST OFFICE, TELEGRAPHS AND MINT.

We do not propose to go into the administrative aspects of these departments. We shall briefly discuss the main financial issues connected with them. We find that the charges and receipts under all these three heads have been grouped together in the accounts of the second period. The figures of the first period are as usual not uniform, and in order to make them comparable with those of the second, we have combined in a similar way the figures for these three items in the first period. The figures for Posts and Telegraphs, and for Mints are separately available from the third period. We shall, therefore, refer briefly to the general financial position of these three departments taken together in the first two periods, and then discuss them separately. We see that in the first period, except in the year 1865, there was a net expenditure to the state. In the second period, from 1875 to 1887, except in the year 1877, there was a similar net expenditure to the state. Since 1888, the state receives an excess of receipts over charges. The average net burden on account of these departments was 22 lakhs of Rs. in the first period. In the second, the net receipts in the latter half almost balance the net expenditure in the former half, and hence the average net burden for the whole period is only Rs. 26,000.

Posts and Telegraphs :—As said above, it is possible to discuss these departments separately from the third period. The department of Posts and Telegraphs makes both ends meet in the third period, with an average net receipt

amounting to Rs. 10 lakhs. During the War, the activities of this department had naturally to be expanded, and this is reflected in the large receipts of the war period, with an average net receipt of Rs. 90 lakhs to the state.

These results, however, have to be taken with some qualification. The cost of the construction of post office buildings is charged to the Public Works Department. Besides, non-effective allowances and charges are not included in these figures. At the same time the Post Office is not credited with any receipts on account of the Savings Bank business which it undertook from 1882. The charges under "Telegraph" include capital outlay for extension of the telegraph system.

Since 1921, the system of showing the figures under Posts and Telegraphs has been changed. On the credit side, we have the net receipts, that is, the gross receipts after deducting the working expenses. On the debit side, we have two items:—(1) Posts and Telegraphs revenue account, which consists of interest on debt and miscellaneous expenditure and (2) Posts and Telegraphs Capital account, charged to revenue. If we take into account both these items, we find that there was a net burden of a crore of rupees in 1921, and that since then there has been a net gain to the state from Posts and Telegraphs. The Inchcape Committee was informed that the accounts of this department were going to be placed on a commercial basis with sufficient allowance for depreciation of the capital assets. The Committee also recommended the appointment of a Financial Adviser to the Director-General of Posts and Telegraphs.

The series of large deficits from which the Government of India suffered during the years after the war led them to find fresh sources of income in every direction. This had its effect on the department of Posts and Telegraphs also. The working expenses of the department had largely increased chiefly on account of increased pay of the staff,

and it was felt that if the rates for these services were not raised, there would be a net loss to the state, which it was not possible to bear in the existing circumstances. The rates were accordingly increased in 1921 and once again in 1922. The rates of 1922 have been adopted for the purposes of the annual Finance Act since then. The quarter-anna post card, and the half-anna letter have disappeared; we have now to pay twice the amount in either case.

Mention should also be made of various subsidies which India has to pay for telegraphic and mail service overseas. In 1858 the Red Sea Telegraph was constructed at great cost, but was soon found worthless. India had to pay half the annuity (or £ 18,000) up to 1908 to meet the losses on this enterprise.[1] In 1890 proposals were made that there should be an alternative telegraphic communication between England and India via the Cape and the Mauritius. What is known as the Zanzibar and Mauritius Cable was then laid and India has to pay a subsidy of £ 10,000 per year to it.[2] Sir David Barbour who was Finance Member at the time, was of opinion that the duty of protecting commerce on the high seas should devolve upon England, and he therefore dissented from the resolution to pay this subsidy. There are other subsidies for mail services in the Persian Gulf, and to the Peninsular and Oriental Company for mail service between England and India.

The Indo-European Telegraph Department:—This Department is located in London and is in charge of the alternative route between Europe and India to that formed by the Eastern Telegraph Company, and of the telegraph systems in the Persian Gulf and Persia. The alternative route runs from England through Germany and Russia to Teheran which is connected with Karachi. During the war it could not work for obvious reasons; it is being re-established for traffic. There is what is known as the

1. Cf. W. C. Report, para 245.
2. Ibid, para 244.

Joint Purse agreement between the Department, the Indo-European Telegraph Company, the Eastern Telegraph Company, and the Eastern and South African Telegraph Company. By this agreement, the revenue which each of the partners gets on messages between India and places beyond India is pooled in certain proportions. Though the Indo-European Company has not been working since the war, the other partners have paid their share into the pool, with a consequent net payment to the Government of India. In view of the fact that the main expenditure of the Department is in India and the staff is recruited in India, Sir Purshottamdas Thakordas in a note to the report of the Inchcape Committee recommends "that in the interests of efficient management and better control over expenditure, the headquarters of the Department be with the Government of India at Delhi." He is also against the suggestion made by the Committee for the sale of this concern to a British Company.

Mints :—The mints at Calcutta and Bombay coin rupees, half-rupees and small coin for the Government of India. They are coined either from metal purchased from abroad or from existing coins which are withdrawn from circulation to maintain the purity of the coinage. The mints are also engaged on a veriety of subsidiary work, *e.g.*, "the coinage of silver British Dollars for circulation in the Straits Settlements and Hongkong, small coin for these colonies and Ceylon and occasionally for certain Indian States, the receipt of sovereigns and gold bullion imported into India by banks and firms to obtain finance for trade, the receipt and refinement during and subsequent to the war of gold produced in India which used formerly to be exported to England to be refined and disposed of there, the provision of weights and scales for Government departments, and the manufacture of medals for them and for certain public institutions, and of signature stamps and stamping machines for the Currency and Public Debt Offices

and latterly for Provincial Governments. Since 1914, the Mints have been authorised to receive and refine gold for the public, and this work is heavy in Bombay owing to its importance as a bullion market. The Assay Office is concerned with the assaying of bullion tendered for coinge and of standard meltings made by the Mint, the weighing and assaying of pyx coins turned out by the Mint and the custody and verification of weights of precision."[1]

The receipts of the Mint department are mainly derived from a percentage charge on rupees coined, and from the profits on the coinage of small token coins. The profits on the coinage of rupees are credited to the Gold Standard Reserve. The department also gets receipts for some of the subsidiary services mentioned above.

In the third period, the receipts of the department were on an average higher than the expenditure; the net receipt in the fourth period was large, being 93 lakhs of Rs. on an average. This was due chiefly to the heavy coinage of rupees during the war. The figures of the Mint department in recent years are considerably smaller because of the reasons mentioned below.

Currency:—Since 1921, a new classification has been introduced by which the items Currency, Mint and Exchange are shown separately in one group. Exchange was formerly shown in the Miscellaneous Civil Charges. The transactions of the Currency department were not separated from those of the Mint in the years before 1921. The major portion of the expenditure on the currency department is on account of the cost of the currency offices and the remittance of treasure. The cost of printing currency notes is also included in this. Arrangements have now been made to manufacture currency notes in India by the state as and when the contracts with the Bank of England expire. The Inchcape Committee found that it

1. Inchcape Committee, Report, p. 241.

was more economical to use silver rupees than paper rupees, and recommended the discontinuance of the one rupee note. This has been accepted and the one rupee note is being withdrawn from circulation.

We find that the currency department shows a net gain to the state amounting to nearly 3 crores of rupees in recent years.[1] This is mainly due to the fact that in recent years the interest on the Paper Currency Reserve and the excess over 40 m. £ in the Gold Standard Reserve is credited to revenue and shown as a receipt under this department. This is a temporary arrangement to meet the recent heavy dificits in the Government of India.

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1. Ourrency department.

(in crores of Rs.)

	Receipts.	Expenditure.	Net receipts.
1921	4·2	·9	3·3
1922	3·3	·9	2·4
R. 1923	2·9	·9	2·0
B. 1924	3·5	·6	2·9

CHAPTER IX.

FAMINE INSURANCE GRANT.[1]

During the famines of 1866, 1868, and 1869, the Government spent large sums of money in relieving the distressed. The famine of 1873-74 caused an expenditure of 6¾ crores of rupees. The Government of Lord Northbrook, then, realised that the occurrence of famines could not be regarded as an extraordinary visitation in India, and that therefore famine charges must be looked upon as contingencies to be expected to recur with more or less regularity. Such being the case, it was not thought wise to depend upon loans for the purpose of meeting future charges of a similar nature. With these considerations, Lord Northbrook laid down a line of policy in these words[2] :—"It is necessary, therefore, that besides a fair surplus of income over ordinary expenditure, such a margin should be provided in addition in ordinary times as shall constitute a reasonable provision for meeting occasional expenditure upon famines. If the surplus be employed in the reduction of debt, in the construction of reproductive public works or remain in the cash balance, the expense caused by future droughts may fairly be met by appropriations from cash balances, or by loan, to the full extent of the accumulations of surplus." At the same time, the question of the prevention of famine by means of railways and irrigation works was considered and it was laid down as a duty of the Government "to consider how far it may be desirable to accelerate the construction of reproductive public works, and if so, how the necessary funds shall be provided."

The expenditure due to the famine of 1876-77 went beyond all expectations (more than 9 crores), and it was found that the public debt of India had increased by 16

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1. Reprinted from an article on this subject by the author in the Journal of the Indian Economic Society, June 1922.

2. F. S. 1874.

million £, on account of famines during the five years 1873–78. The policy referred to above of preparing beforehand to meet the calls of famine had not been carried out. It had been accepted by the Secretary of State and re-affirmed in the Financial Statement for 1877. But practical shape was not given to it, till the end of 1877 when Sir John Strachey inaugurated what is known as the "Famine Insurance Scheme."

The basis of this scheme was a rough estimate of 150 lakhs of Rs. as the yearly average cost of famines in loss of revenue and actual expenditure. In view of the experience of past famines, and works of material improvement that had been constructed, it was thought that the cost of famine relief would be less in the future than it had been in the past. It was with these considerations in mind, that Sir John Strachey made the above estimate and he pointed out that it corresponded approximately with the sum that it would be requisite to distribute the charges of the last five years over a period of ten years.[1] It was, therefore, resolved to increase the resources of the Government by this sum every year. This was obtained by additional taxation (License Tax and Provincial Rates) which brought 110 lakhs of Rs., and by a revision of the "Provincial Contracts". which gave financial relief to the Government of India to the extent of 40 lakhs of Rs.

The manner in which this additional resource was to be utilised was an important part of the scheme. The noble object with which this special surplus was provided was universally approved, but the way in which it was spent became an object of frequent criticism.

The basis of the scheme as said above was that the average annual cost of famine would be 150 lakhs of Rs. or in other words, that in every ten years, the Government will have to spend 15 crores on the relief of famine, and

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1. P. P. 37 of 1878.

for this a bonafide surplus of 150 lakhs a year was to be provided. But this surplus was not to be locked up in a separate box nor to constitute a separate fund. It was pointed out that if the public debt was reduced by 150 lakhs every year or by 15 crores in ten years, the yearly charge for interest at the end of that time would be reduced by, say, 60 lakhs (at 4 per cent.). And if the necessity for spending the 15 crores (on famine) arose, this sum could be borrowed and a fresh charge of 60 lakhs could be incurred, leaving the finances in the same position that they were 10 years before.[1]

But it was argued that it was not wise to reduce the debt in this way, when the Government at the same time was incurring fresh debt for other purposes. The policy of borrowing every year large sums of money for the construction of railways and canals had been deliberately adopted since 1869. This practice could be continued with complete financial safety so long as the growing income derived from the works kept pace with the charge for interest on the borrowed funds. The results of this policy were supposed to be satisfactory so far, and it was assumed that the Government would continue to borrow money on these principles for such productive works.

The natural conclusion, therefore, was that if the proceeds of the new taxes were applied to the construction of these works, the sum which the Government would otherwise have borrowed on this account, would be reduced by 150 lakhs. Instead of the actual repayment of debt, this process involved the prevention of fresh debt to the extent of 150 lakhs every year. The financial result, it was pointed out, would be the same, for at the end of 10 years by preventing borrowing to the extent of 15 crores the annual interest charge would be less by 60 lakhs on the above supposition, than it would otherwise have been; and

1. P. P. 118 of 1878.

therefore, if necessary, the Government could borrow 15 crores for famine relief without being financially in a worse position.

The expenditnre on railways and canals was justified and limited by one main consideration—that the works will give a return of more than the ordinary charge for interest on the outlay. The strongest criticism against this policy was that the expenditure was in excess of the requirements and capacity of the country and that the works did not yield the necessary return for a long time. An excellent loophole was now provided for the Public Works Department by placing at their disposal the famine surplus of 150 lakhs a year. They could now provide for extensive plans and larger outlay, without having to borrow more. This sum was not a separate investment, it became a part of the total outlay on public works. Irrespective of the fact that particular railways and canals were built out of borrowed capital or out of the famine grant, it was equally assumed that they would be reproductive. If this assumption had been given a special significance so for as the use of the famine grant was concerned, the scheme would have been less open to objection. If it was provided that the works constructed out of this amount from the public revenues, shall be really reproductive, that is, they shall at the end of 10 years produce an income at least equal to the interest which the Government would have to pay, if they had then to replace by borrowing a sum equal to that spent on their construction, then only the principle of the scheme—to provide an insurance against famine, would have been safeguarded.

In considering the early history of this scheme, it is necessary to refer to two apparently contradictory passages in the speech of Sir John Strachey before the Legislative Council on 27-12-1877, each of which became the basis of the arguments of the Government and its critics in the

prolonged controversy that took place in connection with the management of this Grant in future years.[1]

On the one hand Sir John Strachey gave a solemn pledge regarding the disposal of this money in these words:—"Unless, then, it should be proved hereafter by experience that the annual appropriation of a smaller sum from our revenues will give to the country the protection which it requires, we consider that the estimates of every year ought to make provision for religiously applying the sum I have mentioned to this sole purpose, and I hope that no desire to carry out any administrative improvement, however urgent, or any fiscal reform, however wise, will tempt the Government to neglect this sacred trust."

On the other hand, he used words, which could be easily interpreted to justify a diversion of this money from its legitimate use. "In such matters", he said, "no doubt, Governments cannot fetter their successors, and nothing that we could now say or do would prevent the application of this fund to other purposes. Without thinking of a future far removed from us, events might, of course, happen which would render it impracticable even for us, who have designed these measures, to maintain our present resolutions."

The arrangements detailed above were modified by the Secretary of State in his despatch of 20 February 1879.[2] It was held that the first claim on the newly created resources was that of the Secretary of State for the repayment of debt already incurred on account of famine, and that therefore 75 lakhs should be held available for remittance to England on that account, whereas, the remainder was to be used at the discretion of the Government of India "to the extinction of debt, to the relief of famine, or to the

1. Cf. debate in Legislative Council on the Financial Statement, 1894.

2. Cf. W. C. Vol. II. p. 125.

construction of protective works not necessarily directly remunerative, but obviously productive in the sense of guarding against a probable future outlay in the relief of the population."

But the fall in the value of silver and the Afghan War disturbed the finances to such an extent at this time, that the Famine Insurance Grant had to be suspended for the year 1879. This early suspension of the Grant, specially raised from additional taxation, after the solemn pledges that had been recently given, raised suspicions about the policy of the Government and evoked severe criticism in many quarters.[1] The Government of India soon after admitted[2] that if the policy was to be continued, it would be advisable to give some additional security to the taxpayers that 150 lakhs a year would be applied either to the direct relief of famine or to providing an insurance against famine in future years. With this view, it was announced in the Financial Statement for 1881 that the sum of 150 lakhs to be annually provided as an assurance against famine, instead of being considered as a surplus receipt for subsequent appropriation, would be henceforward treated as a fixed portion of the normal expenditure of the year. The first use to which this money would be applied was, of course, the direct relief of famine. If no expenditure was required under this head the sum of 75 lakhs[3] was to be spent on the construction of Protective Public Works and the remainder was to be transferred to the Commissioners for the Reduction of Debt[4]. And further, in order to remove the doubts in the minds of the public, it was argued that there was no special connection, between the Famine Insurance Grant and the License Tax

1. F. S. 1880.

2. Despatch, 2-2-1881, cf, W. O. Vol. II. p. 125.

3. Out of this 50 lakhs were for railways, the rest for irrigation.

4. This body was to be specially appointed. cf. Government of India resolution 683 of 3-2-1882.

and Public Works Cesses (or Provincial Rates), and that the receipts from these taxes increased the general revenue, and by so much facilitated the execution of the policy in question.[1]

The system continued in this form without any material change till 1886, when an important departure was made. We have seen that in the beginning it was resolved to spend part of the Grant in constructing Productive Works. Later, however, it was found convenient to introduce another classification, and sanction was given for spending half the Grant in building Protective Works. The former were supposed to yield interest on their outlay in a certain period of time. The latter were not remunerative in this sense; but their construction was justified on the ground that they would protect the country from the effects of famine. Thus if a certain work was constructed which could not be easily classed as productive, it may safely be shifted to the protective category and the necessary funds be obtained from the Famine Grant. This was possible because these terms were not strictly defined and it was left to the discretion of the Government to determine whether a particular work was Productive or Protective.

The system of constructing railways by companies with guaranteed interest which was discarded in 1869 was again partially revived in 1880. Two of such companies undertook to build the Indian Midland and the Bengal Nagpur Railways on attractive terms. It was argued that these railways were a part of the larger scheme of Famine Railways or Protective Railways, which were built specially to protect the country against famine, and that therefore it would be proper to charge the Famine Insurance Grant with the loss due to the guaranteed interest on these railways, which the Government agreed to pay. The Secretary of State sanctioned this procedure, which in effect reduced the Famine Grant, and diverted a part of the

1. F. S 1881.

revenues to secure the interests of the builders of these new railways.

Falling exchange and the cost of a war in Upper Burma disturbed the finances of the year 1886 and 1887. If the usual provision for the Famine Insurance Grant were made, there would be a large deficit. It was argued that the grant was based on the assumption that there was a surplus, that the current expenditure exceeded the ordinary revenue in those years, that there was no surplus and hence it was necessary to suspend the Grant. But the "protective" works which were in progress were not discontinued; provision for their construction was now made with borrowed money.

The idea of reviving the Grant was not considered till the year 1889 was complete, when a large surplus was found to be on hand. The prospects of the year 1890 were also encouraging and in the Financial Statement for that year, it was announced that the Famine Grant in both these years would be shown at 60 lakhs which together with the loss on the Bengal Nagpur and Indian Midland Railways would amount to more than 100 lakhs. For the year 1891, the Finance Member was able to provide the Grant at its original amount—150 lakhs.

In the meanwhile, the Secretary of State was suggesting the permanent reduction of the Grant to 100 lakhs. Considering the extension of railways and the increased protection given to the people against famine since the Grant was introduced, it was believed that a provision of 100 lakhs would be sufficient for the future. And if this figure was adopted, it was suggested that it would be better to revert to the "original arrangements under which the whole of the famine surplus was to be applied to the reduction of existing debt or diminution of borrowing[1]." In the opinion of the Government of India, however, the permanent reduction of the Grant was open to misconstruc-

1. Despatches, 22-4-1888 and 9-7-1891, W. O. Vol. II.

tion by the public, and they preferred, therefore, to keep up a fiction and to maintain the Grant at 150 lakhs and charge against it the net loss on the Bengal Nagpur and the Indian Midland Railways.[1] In assenting to this arrangement, the Secretary of State gave expression to the following view[2]—" If, however, it be possible, without interference with other measures of greater importance, to make the larger allotment, it is no doubt desirable in this manner, to secure surplus revenue for the reduction of debt, which may be available in case of an emergency arising."

The views of the authorities given above at some length make clear the different motives that entered into their management of the Famine Insurance Grant. The public were to be satisfied with the idea that they were insured against famine; the grant might reduce debt or be utilised in hurrying the prosecution of those Public Works which could not otherwise be undertaken; if an emergency other than a famine arose, the Grant could be easily suspended, the emergency could be met, and the people would not feel that they have passed through one. The Famine Insurance Grant served sometimes as a Sinking Fund ; sometimes as a Capital Fund (to be invested in works which need not earn even interest), or as a Guarantee Fund (to create and secure vested interests); sometimes as an Emergency Fund to aid a war or to make up the loss by exchange. There was advantage both in showing it in the accounts and withdrawing it from them, according to circumstances.

The favourable situation which enabled the Government to restore the Famine Grant to its full amount in 1891 lasted for three years only. In 1894, the rupee touched its lowest ebb and the Finance Member was faced with

1. Financial letter of 23-9-1891, Ibid.

2. Despatch, 5-11-1891, Ibid.

a huge deficit. Import duties which had been removed in 1882 were revived; the provinces were asked to give contributions and the Famine Grant was suspended. The financial situation was not easy in the beginning of 1895 and the Grant was not shown in the budget for that year. But curiously enough when the accounts of 1894 and the revised estimates of 1895 were made up along with the budget estimates of 1896, it was found that there was a net surplus in these years, and that the Famine Grant could be easily shown in the accounts at the reduced figure of 100 lakhs.

This was now to be the new limit for the Famine Grant. When in March 1894, the suspension of the Grant was announced, considerable criticism was made in the Legislative Council against this action. The whole history of the Grant and the motives that underlay its origin and subsequent management were fully discussed on both sides. In reviewing[1] these proceedings, the Secretary of State drew the attention of the Government of India to the suggestions made by his predecessor in 1888 to the effect that the Famine Grant might be permanently reduced to 100 lakhs. This was perhaps the only way in which to satisfy public criticism without disturbing the arrangements of the Government. Accordingly in the Financial Statement for 1896 it was argued that 'our financial and our protective preparation for them (future famines) is infinitely superior to what it was at the time when the famine insurance policy was laid down," and therefore a provision of 100 lakhs for this purpose was now justified.[2] But the Finance Member was not aware that within a few months, his sanguine statement was to be put to the severest test. The famine of 1896-98 upset all his calculations.

1. Despatch, 21-6-1894, cf. also despatch 22-4-1888, W. O. Vol. II.

2. The wisdom of this was questioned in the Legislative Council.

Large sums of money had to be spent on the direct relief of famine, and in the light of this experience, the Famine Grant was again raised to 150 lakhs in 1898.

Table[1] 1 which shows how the Famine Grant was appropriated upto 1898, reflects the unsteady character of the policy in connection with its management. For the first three years after its inception, it practically did not exist. Out of the remaining 18 years, it was suspended during three and considerably reduced during four. During nine years it reached its normal figure, which was exceeded in two, because of famine.

If the original plan had been adhered to, the total Grant in these 21 years, ought to have been 31 crores. We find it to be 27.8 crores, and that too, including the excess due

1. **Table 1 showing the appropriation of the Famine Insurance Grant in lakhs of Rupees.**—

Year.		Famine. Relief.	Protective Railways.	Protective Irrigation Works.	Reduction of debt.	Loss on B–N–& I–M–Rys	Total.
1878	...	31	...	...	...	...	31
1879	...	10	...	...	...	...	10
1880	...	3·5	...	...	...	...	3·5
1881	...	3 5	68	13·5	71·5	...	156 8
1882	...	2·2	—13	26	134	...	149·6
1883	...	9	64 9	28	58	...	152·3
1884	...	·7	94	25	34	...	154·8
1885	...	4	58 9	18 7	68	2 9	152·9
1886	...	·1	20	10·8	...	15	46 1
1887	...	..	...	9	...	28 5	37·7
1888	...	·8	...	7	...	43	50 8
1889	...	6 8	...	7	46	46	106·2
1890	...	·5	...	7	52	48	108 2
1891	...	2·3	48 5	7·8	68	23	150·0
1892	...	7	98	6	...	38	150 0
1893	...	...	106	5·6	...	37	148 6
1894	...	1	55·7	4	...	39	100·0
1895	...	1 8	53	3·8	...	41	100·0
1896	...	207·9	...	4 7	...	43·9	256 5
1897	...	532·6	...	3 7	...	35	571·6
1898	...	4	69	1 2	44·5	31	150·0
Total	...	821·6	724	190·7	577	473·6	2787·7
Averâge...		39·1	34·5	9	27·5	22·5	132·7

to the famine at the end of the period. If the expenditure of 8·2 crores on the direct relief of famine was its most legitimate use, that of 4·7 crores to meet the loss due to the guaranteed interest on the two railways was its most illegitimate use. In the absence of actual famine, the next best use of it was reduction of debt, for which only 5·7 crores could be spared, whereas more than 9 crores were spent on works, which did not pay their way and whose so called protective value against famine, it is difficult to determine.

The criticism made above does not apply to the appropration of the Famine Grant in the years subsequent to 1898 (see table[1] below). It is no longer suspended

1. Table 2 showing the appropriation of the Famine Insurance Grant in lakhs of Rupees.

Year.	Famine Relief.	Protective Railways.	Protective Irrigation Works.	Reduction or Avoidance of debt.	Loss on B-N-& I-M-Rys.	Total.
1899 ...	311	...	3	...	4	319
1900 ...	618	...	4	...	1	624
1901 ...	79	...	10	43	17	150
1902 ...	48	·2	14	84	2	150
1903 ...	3	14	22	97	14	150
1904 ...	·3	17	32	100	...	150
1905 ...	20	8	44	77	...	150
1906 ...	47	·5	53	50	...	151
1907 ...	93	1	62·5	37·5	...	194
1908 ...	148	...	61	37·5	...	246
1909 ...	12	2	65	71	...	150
1910 ...	·3	5·5	54	90	...	150
1911 ...	17	6·5	57	69	...	150
1912 ...	28	6	64	51	...	150
1913 ...	23	1	74	51	...	150
Total ...	1447·6	61·7	619·5	858	38	3034
Average	96·5	4·1	41·3	57·2	2·5	202
1914 ...	41	...	75	33	...	150
1915 ...	11 2	...	75	64	...	150
1916 ...	28	...	50	72	...	150
1917 ...	·5	...	51	98	...	150
1918 ...	46	...	47	57	...	150
1919 ...	117	...	53	...	...	170
1920 ...	26	...	60	64	...	150
Total ...	269·7	...	411	388	...	1070
Average	38·5	...	58·7	55·4	...	152·8

even in times of difficulty. Generally it appears at its normal figure of 150 lakhs; in some cases this figure is exceeded, on account of special outlay on large famines. The most objectionable feature in the appropriation of the Grant which we have noted above namely the loss due to the guaranteed interest on the Indian Midland and the Bengal Nagpur Railways is considerably reduced at first, and finally disappears from 1904. Unlike the practice followed so far, a greater part of the Grant is spent on useful Irrigation Works, instead of on Railways. Besides, the Grant is now more systematically used for the "Reduction or Avoidance of Debt", on an average more than 50 lakhs being spared for this purpose.

Provincial Responsibility.

Till recently the accounts of the Central and Provincial Governments were combined in one statement. The Provinces, however, had a certain amount of responsibility in financial matters. The financial relations between the Central and Provincial Governments were defined from time to time, generally every five years, by what are known as "Provincial Contracts." We are concerned here with that part of these Contracts which defined the responsibility of the Central and Provincial Governments in the matter of Famine Relief.

Under the arrangements existing before 1882, in case of famine a Provincial Government could not get any assistance from the Imperial Government till the whole of its resources were exhausted. According to the new rule made in 1882 though the Provincial Governments were not to expect any special aid, except in case of a severe famine, they were to be given help at an earlier stage than before within certain limits. According to this rule which was repeated in subsequent Contracts, the Imperial Government came to the help of Provincial Governments, during the severe famines of 1896-98. Apart from direct expenditure

by the Government of India on account of famine, they gave more than a crore of rupees to the Provinces during these years to help them to meet the emergency.

The Bombay Presidency was suffering from scarcity or famine in successive or alternate years since 1896. In 1904 and 1905 the Deccan was visited by famine. The Provincial Contract of 1905 had not taken note of this recurring charge to the Bombay Government on account of famine. The rule by which famine expenditure was to be met by the Provincial Government in the first instance, and the Imperial Government was to help when the resources of the former were exhausted was applied. The Bombay Government found it very difficult to make both ends meet in these circumstances. The situation became so bad that the Government of India had to allot 42 lakhs of Rs. to Bombay for famine charges in the budget of 1906. The unsatisfactory nature of the arrangement was pointed out in the Council during the Budget discussion in March 1906.

With a view to remove these defects a new scheme was introduced in 1907. The Provincial Governments were to build up a reserve of credit with the Imperial Government which was to be drawn upon in case of famine. The means of creating this reserve was an increase in the annual fixed assignment to each Province.[1] It was believed that for the purposes of a small famine, this reserve would be sufficient, and the Provincial Government would be secured from any dislocation of its ordinary financial administrative machinery. When the reserve was exhausted

1. The amounts assigned were with reference to the average expenditure on famine relief during the past 25 years by the different provinces as under:—

	Lakhs of Rs.
Madras	2·5
Bombay	13·7
Bengal	2·6
U. P.	4·5
Punjab	1·4
C. P.	12·8

on account of a severe famine any further expenditure on famine relief was to be shared equally between the Imperial and the Provincial Governments. In rare cases when the assistance was found insufficient, the Imperial Government would give further help.

The one grave defect of this scheme which came to light by future experience was that it made the assistance to Provincial Governments dependent upon the gradual building up of the Reserve of Credit for each province, with the consequence that there was no adequate provision for the case of a province, which after the exhaustion of its credit by one famine was very shortly afterwards attacked by another.

This defect was remedied in 1917 when it was decided to do away with the system of 1907, and to treat the heading—" Famine Relief "—as an ordinary divided head, the ratio between the Imperial and Provincial share in each case being 3 to 1. This distribution represented approximately the assistance which Imperial revenues actually gave in the long run under the existing system. As in 1907, when in rare cases this assistance was found insufficient, the Imperial Government was to render further help.

Famine Relief under the Reforms.

Under the Reform Act the Provinces have been given what is known as Financial Autonomy, and the accounts of the Central and Provincial Governments have been completely separated. Land Revenue has been made an entirely Provincial receipt and the expenditure on famine and irrigation works which for obvious reasons is intimately connected with Land Revenue is therefore made a Provincial charge. In order however that the Provinces may not dissipate their resources and may be alive to their responsibility in this matter, each Provincial Government is required by Devolution Rule No. 29, to establish and maintain out of provincial revenues a Famine

Insurance Fund, for the administration of which certain provisions have been laid down.

Every Provincial Government is to make in every year a provision in its budget for expenditure upon relief of, and insurance against, famine as under :—

			Rs.
Madras ...	...	...	6,61,000
Bombay ...	...	...	63,60,000
Bengal ...	...	...	2,00,000
United Provinces	...	...	39,60,000
Punjab ...	...	...	3,81,000
Burma ...	...	...	67,000
Bihar and Orissa	...	...	11,62,000
Central Provinces	...	...	47,26,000
Assam ...	...	...	10,000

The provision is to be made in the form of a demand for a grant. It can be used only (1) on the relief of famine or (2) on the construction of protective irrigation works or (3) other works for the prevention of famine. The balance is to be transferred to the Famine Insurance Fund of the Province. This fund is to form part of the general balances of the Governor-General-in-Council, who is to pay interest upon it. The Provincial Government may draw upon this Fund for any of the above three purposes, or for granting loans to cultivators, either under the Agriculturists' Loan Act, 1884, or for relief purposes. The interest on the loans and the repayments of the principal are to be credited to the fund. When the fund to the credit of any province is not less than six times the annual provision which it is required to make every year, the Provincial Government is at liberty to suspend for a time the annual provision.

This system came into operation in 1921, and it is too early to pronounce an opinion on its working or results. It

is evident however that the detailed provisions noted above reflect the accumulated experience of the Government in matters of Famine Relief in past years. The financial position of the Central and Provincial Governments was dominated by large deficits till recently; in spite of the work of the various retrenchment committees complete equilibrium has not yet been restored. So far as Famine Relief is concerned, however, it is not too much to suppose that unless something unforeseen occurs the Provinces ought generally to be ready under the present system to relieve the people, committed to their care from scarcity and distress. Of course, it is understood that in extreme cases the Central Government could not renounce its responsibility.

CHAPTER X.

INTEREST CHARGES.

In order to understand the nature and importance of interent charges in the accounts of the Government of India, we must follow the developments in connection with the Public Debt of India. The principles of classification usually adopted in works on Public Finance would require that the question of Public Debt be considered after discussing both Expenditure and Revenue. For the sake of convenience, however, we propose to discuss the policy regarding Indian Public Debt in this chapter along with the connected question of interest charges which form an important item in the Expenditure of the Government. In fact, some of the important aspects about Indian Public Debt are closely connected with the problems which have been discussed in the preceding chapters of this part, and it would be better to treat the former here while the latter are fresh in the minds of the reader.

Our Public Debt—its Origin.[1]

The nature of the Public Debt of India, and of the burden caused by it is frequently misunderstood, because the origin of the Debt is not well known.

The East India Company, who were the trustees of the English Crown waged many wars in India. Some of them were against the French, the old rivals of the English in every part of the globe. Others were against native powers usually supported by the French. These wars resulted in the acquisition of vast territores. They were either commenced under the orders of the English Government or were afterwards sanctioned by it. The right of making war in Asia was given to the East India Company, so long as the fruits of victory were made over to the English nation, and the cost discharged by the Company.

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1. Reprinted with corrections from an article on this subject contributed by the author to the Modern Review, Calcutta, March 1923.

But the financial position of the Company was not strong enough for these wars. In 1765, when they first became masters of Bengal, they were already in debt, which was incurred with the sanction of the British Government, in the bitter struggle for existence against the French in the Carnatic. This debt was fastened upon the revenues of the newly acquired province of Bengal.[1]

This is the beginning of the so called Debt of India. Though the resources at the command of the Company were vast, they were not equal to the demands made upon it for the frequent wars which followed. In spite of the exactions of Hastings, when the revenues of Bengal were found inadequate, it was resolved to pledge those revenues to find the money for the Company's wars. Thus with the help of the revenues of Bengal, the territories of the Sultan of Mysore were partitioned, and with the help of the revenues of the Mysore territories, the Kingdom of the Marathas was subverted. The English wars in India were carried out not only with Indian troops, but wholly with Indian revenues and Indian credit.

But the worst is not yet told. The wars of England in all parts of Asia, were carried on with the army and

1. The Company was required by the Parliament to give to the English Treasury a contribution of £ 400,000 a year. This was paid for a short time only, because the finances of the Company were not good. Cf. in this connection the remarks of Robert Knight, formerly editor of the Times of India—"The Crown of England formally sanctioned whatever disposal the Company was pleased to make of these revenues, upon the respectable condition that the Company paid £ 400,000 a year into the English Exchequer as the nation's share of the spoil. Conceal the fact, as we please from ourselves, or gloze it over as we may, the simple truth is that the nation gave the Company a great buccaneering commission to plunder the princes and people of India as they pleased, on condition that an annual contribution of £ 400,000 was made from their spoils into the English Treasury". R. Knight, India, and our Financial relations therewith, p. 17.

resources of India. Ceylon, Singapore, Hongkong, Aden and Rangoon were all acquired by the same means. The wars with China, Afghanistan, Burma and Persia were provided chiefly from Indian resources, though they were fought " in pursuance of a British policy, with which the interests of India were but remotely concerned ".[1]

Besides, the expenses of the Company's establishments at St. Helena, Bencoolen, Malacca, Prince of Wales Island, and Canton, and the expenses of English expeditions on the Cape of Good Hope, Manilla, the Mauritius and the Moluccas were thrown on India. It is difficult to find the remotest interest that the people of India could have in these places. Some of them were acquired and maintained by the Company for its commercial needs before it had any territory in India. St. Helena was taken over by the Crown in 1834, but we find items under "St. Helena establishment" in the "Englis Charges" upto the year 1865.[2]

When in 1834, the Company ceased to be a commercial body, the debt accumulated in this way amounted to 37m.£. In order to understand how these 37 m. £. formed the " Public Debt of India ", we need to refer in some detail to the financial history of the Company.

The paid-up capital of the East India Company was six million pounds, and with this capital they carried on the double functions of merchants and rulers. They traded like rulers and ruled like merchants.[3] It is difficult to say whether India gained on the whole from this joint business of trading and ruling. This question on which extreme opinions are held on both sides need not be discussed here. The fact remains that in this joint business, the Company and India were regarded as partners by the English

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1. Wingate, p. 17.

2. These were pension charges.

3. Cf. Adam Smith, Prof. Cannan's edition, vol. II, pp. 136 to 140 and p. 304.

Government and the former were empowered by an Act of Parliament to declare a dividend of 10 per cent. on their capital, without reference to the profits of trade, and even if they had to borrow the money to pay it.[1]

It is well known that from the time of the Diwani (1765), the Company could carry on its commercial operations only with the revenues of Bengal and its credit as the Government of India.[2] The commercial and territorial accounts of the Company were not separated till 1814, and it is difficult to say to what extent the revenues of India were used for commercial purposes. The Charter Act of 1814 abolished the monopoly of the Company in the Indian Trade, though the Chinese monopoly was retained. From 1814, therefore, the attention of the Company was directed to its monopoly trade with China, to its trade with India in competition with other merchants, and to its activities as a ruling power in India, on behalf of the English Crown. From this year we find that the accounts of the Company are shown under two separate heads, those of "the Political and Territorial Branch", and those of "the Commercial Branch". Even a superficial perusal of the accounts after the year 1814 shows that this division of accounts was not properly made. There are many items charged to "Territory" which ought properly to belong to "Commerce". This anomalous situation continued till 1834, when it was resolved to put an end to the commercial activities of the Company and to leave in its hands the Government of British possessions in India.

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1. This refers evidently to the period after the Company acquired territorial power, that is, from 1758. During the wars that followed after this, it is notorious that the commercial profits of the Company did not suffice for their dividends, which were paid out of territorial revenues or out of money, borrowed on the credit of such revenues.

2. Cf. 9th Report, Committee of 1782, p. 22.

Very important transactions took place on this occasion, which are usually forgotten by historians.[1] The political power of the British, by this time, was supreme in India. The Government of vast territories and of millions of people was in the hands of the Company. The English Government were aware that it was not wise to leave this great power in the hands of the Company for an indefinite period. But they were also aware that the vested interests of the Company were so powerful that it was not practical or perhaps not expedient to take away the Government of India from the Court of Directors at that time. It was well known that the Indian patronage was more valuable to the Directors than their annual dividend.[2] The English Government of the day, therefore, proceeded on the assumption that the Government of India should be left in the hands of the Company for some time longer, but that safeguards should be provided for carrying on that Government more efficiently. The immediate steps were firstly, to put a stop to the commercial activities of the Company, and secondly, to increase the control of the English Government over the Court of Directors. This opened the whole question of the assets and liabilities of the Company. The Directors were anxious about two things; they wanted to secure to themselves the patronage in India, and to the Proprietors the annual dividend. As we have seen above there was no question of depriving the Company of its patronage at this time; we are, however, more concerned with the financial arrangements.

The question at issue was supposed to be between the commercial branch of the Company, and the territorial branch. In the negotiations that took place, the Directors did their best to advance the commercial interests of the

1. The following account is based on Charter Papers, 1833, printed by order of the Court of Directors. Some of these papers were presented to Parliament at the time. The others have not yet been published.

2. Cf. Adam Smith, Ibid, vol. II, p. 243.

Company. The territorial interests were represented by the English Government. The territorial account was to be separated and formed into the account of the Government of India. The commercial interests of the Company were to be safeguarded to the satisfaction of the Directors and Proprietors, but the cost of doing this was to be thrown on the territorial account.

The issue was wrongly joined. There was no one to feel for the interests of the people of India in these transactions. The question as to who should bear the burden of the territorial debt of the Company—the debt incurred for acquiring the British possessions in India—was not even discussed. It was assumed that this debt should be a burden on the revenues of India, or in other words, this should be formed into the Public Debt of India. It is well known that the acquisition of the Colonies and other possessions by England has added considerably to her Public Debt. The English taxpayer at present feels the burden of the acquisition and maintenance of the mandatory states. But this aspect of the question was entirely ignored when the time for considering it in connection with India had arrived.

In the long and interesting negotiations that took place regarding the Charter Act of 1834, we find only one reference to this question. The Right Honourable Charles Grant, the President of the Board of Control, wrote as follows in his letter to the Directors on 12th February 1833[1]:—

"The liability to which I have now referred, (the liability due to territorial revenues applied to commercial profits), supposing it really to attach to the Commercial assets, so called, of the Company, would deeply affect the value of their property. A doubt, however, has been raised, and is indeed sufficiently familiar to the Company themselves, whether that property be not liable to another demand, which would be absolutely overwhelming.

1. Charter Papers, p. 41.

"The question which I have in view is this,—whether the whole of the Company's Commercial property be not legally responsible for those debts and engagements which have been contracted in the Company's name for Political and Tetrritorial purposes, and whether it will not continue so responsible, even although the Company should be wholly deprived of their political powers and functions.

"This question branches into a variety of points which I forbear from enumerating, but which I can, on good authority, state to be entitled to the most serious considerations; and which, if pressed adversely, cannot fail to involve any attempt to adjust the Company's affairs in the utmost embarrassment. I have felt no difficulty in adverting to this subject; because, as I have before intimated, it is in its general nature not new to the Company.

"Let it be observed, however, that I consider the question referred to as likely to arise only in the event of an adjustment being attempted on the ground of strict right. I will hereafter endeavour to show that neither this nor the former question ought to embarrass the Legislature in sanctioning an adjustment on the basis of the compromise suggested by His Majesty's Government.

"It will, perhaps, be said that, whatever may be the strictly legal estimate of the mutual debts and demands of the Commerce and the Territory, Parliament may, and must, deal with this contested case on enlarged principles of justice and policy.

"That such is both the right and duty of Parliament, His Majesty's Ministers are convinced; and it is precisely on this persuasion that they found their hope of obtaining from Parliament an approbation of the plan which is their intention to recommend."

If the "enlarged principles of justice and policy" have any meaning, it is evident that this debt should have fallen on the Company or on the people of England or on both. But it was convenient and easy for both to escape this burden, and impossible for the people of India to refuse to accept it, when the English Parliament imposed it upon them.

The more important question being thus ignored, the negotiations turned on the other question of safeguarding the commercial interests of the Company. The Company's

claims in this matter were naturally large; but the real nature of their claims was explained to them in these words[1] :—"And, finally, I must state with all plainness, that the interests belonging to the Company in that property which they appear to regard as exclusively commercial, are involved in a multiplicity of doubts and entanglements, from which an escape seems to be next to impossible except through the operation of some such comprehensive scheme as that which His Majesty's Ministers propose."

Under these circumstances, the Company thought it wise to accept the compromise which was proposed by the Government, and to exert themselves to get as many concessions as possible in settling the details of that compromise. The financial clauses of the compromise as originally proposed were[2] :—

"The Company's Assets, Commercial and Territorial with all their Possessions and Rights, to be assigned to the Crown, on behalf of the Territorial Government of India.

"An Annuity of £ 630,000 to be granted to the Proprietors, to be paid in England by half-yearly instalments, and to be charged upon the Territorial Revenues of India exclusively, and to form part of the Territorial Debt of that country, not to be redeemable before the 30th of April 18—,[3] and then, at the option of Parliament, by the payment of £100 for every £5 5s. of annuity.

"Such part of the Commercial Assets as is convertible into Money to be so converted, and the proceeds, with the Cash Balance of the Commercial Department, as exhibited in the Account of Stock by Computation for the 30th April 1834, appropriated to the discharge of an amount of the present Territorial Debt, equal to a Capital producing £ 630,000 a year".

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1. Ibid, p. 36. Letter from Charles Grant, 12-2-1833. also Cf. "The property claimed as commercial by the Company is well known to be exposed to many doubts and questions, both as to the amount and the nature of its component parts. It is further supposed to be subject to heavy liabilities." Ibid. p. 37.

2. Ibid, p. 3.

3. The year was fixed afterwards.

In the opinion of Charles Grant, this arrangement conferred a boon on the Proprietors.[1] Without going into the various stages of the negotiations on this matter, it will suffice to state the financial clauses[2] of the Act which embodied this compromise, which will show how the value of this boon was further increased.

(1) The Assets of the Company were assigned to the Crown on behalf of the Government of India.

(2) The Company's Debts and Liabilities were charged on India. This included the Home Bond Debt (Commercial), as well as the Territorial Debt.

(3) A dividend of $10\frac{1}{2}$ per cent (or £ 630,000) was to be paid on the stock of the Company in England. This was to be a first charge on the revenues of India sent to England, in preference to other charges in England.

(4) The dividend was subject to redemption by Parliament after 1874, on payment of £ 200 for £ 100 Stock (or 12 m. £).

(5) The sum of 2 m. £ was to be taken out of the Commercial Assets of the Company and formed into a Redemption Fund for their Stock. This was to be managed by the Commissioners for the Reduction of the National Debt in England. In case of failure or delay in the remittance of the annual dividend, it was to be paid out of this Fund.

(6) The Commercial officers of the Company were to be given suitable compensations.

Let us see the consequences of this arrangement to the people of India. The sum of 2 m. £ was first deducted from the Company's Assets. The realisation of the Assets was spread over several years. During these years, and for many years after, we find large items in the "Home Accounts" on account of compensations to the commercial

1. Ibid, p. 49.
2. Cf. Sections 1–17 of the Act.

officers of the Company, who were gradually discharged. The remaining Assets were then employed in reducing the Territorial Debt, to which the Home Bond Debt and other liabilities had been added. We find that in consequence of this, there is a gradual reduction in this debt to the extent of about 7 m. £ in the years immediately following 1834.

As against this, India paid the annual dividend of £ 630,000 for 40 years, up to 1874, when the East India Stock was redeemed.[1] At this date, the Redemption Fund did not amount to 12 m. £. as was expected, and to make up for the deficit, the Secretary of State added 4½ m. £. to the "Public Debt of India".

It is easy to see from these facts that the Company was a heavy and unjust burden to India in some respects; and that when in 1834 the Company was wound up steps should have been taken to relieve India of such burdens. But the opportunity was lost; the "Compromise" of 1834 contemplated no change in this respect; it perpetuated and in some respects increased the unjust burdens on the people of India.

After a temporary fall the debt again began to increase on account of wars which added to the British possessions in India. In 1856, this debt amounted to 49 m. £.

But behind this wonderful record, there is another which we have to consider. Far from involving any expense to Great Britain, India has regularly paid a "tribute" in the form of what are called "Home Charges". The total remittances made by the Government of India for meeting these Charges from 1834 to 1856 exceeded 75 millions. Except the military and other stores (which may be

1. At 4 per cent India was saved £ 280,000 a year, by the reduction of 7 m. £. of debt; but the payment of £ 630,000 a year meant that India paid £ 350,000 a year more than what was supposed to have been saved to her. It may be noted that this dividend of £ 630,000 was naturally a charge on the commercial profits of the Company upto 1834.

estimated at about 10 m. £) India received nothing in exchange for this large sum. The true character of these Charges and their effects will be discussed in the next chapter.

According to Dutt,[1] it was this amount taken as " Home Charges " which is the genesis of India's Debt. He has shown that the revenues of India before the Mutiny exceeded the total expenditure incurred in India, in spite of the wasteful expenditure of Indian wars. " Therefore ", he says, " if India had been relieved of Home Charges from the commencement of British rule, India would have had no Public Debt, when she was transferred from the Company to the Crown in 1858, but a large balance in her favour. The whole of the Public Debt of India, built up in a century of the Company's rule was created by debiting India with the expenses incurred in England, which in fairness and equity was not due from India."[2]

It seems more correct, however, to say that both these causes conspired to produce the Debt. Certainly, the first beginnings of the Debt were due, as pointed out above, to the wars of the English against the French in the South of India. We have seen how the burden was increased by subsequent wars and other similar causes. This burden was aggravated by the "Home Charges". It is difficult to estimate the extent to which each of these causes contributed to the debt. It is clear, however, that though the Wars became a matter of history, the "Home Charges" have remained. It may be pointed out that a part of these Charges was due to the wars—the military expenditure in England and the interest charges on the Sterling Debt incurred for the wars.

This unjust policy followed during the time of the Company came to a climax with the Mutiny. The debt

1. Volume II. p. 220.
2. Ibid. p. 215.

which was 49.2 m. £ in 1856 rose to 93 m. £ in 1860, showing an increase of nearly 44 m. £ on account of the Mutiny. "I think," said John Bright, "that the 40 millions which the revolt will cost, is a grievous burden to place upon the people of India. It has come from the misgovernment of the Parliament and the people of England. If every man had what was just, no doubt that 40 millions would have to be paid out of the taxes levied upon the people of this country".

The opinion of Sir George Wingate written in 1859 also deserves to be quoted[1]:—

"If there was an occasion, which called for great sacrifices on the part of the British people, it was certainly this, when the brightest jewel in the British Crown was in danger of being torn from our grasp; but even in this crisis of our history, the selfish traditions of our Indian policy prevailed, and with unparalleled meanness, we have sought to transfer the entire cost of a perilous struggle to uphold our own empire, to the overburdened finances of India. The attempt will fail; but the spirit which dictated it, is not the less evident or blameable on that account. How strange that a nation, ordinarily liberal to extravagance in aiding colonial dependencies and foreign states with money in their time of need, should, with unwonted and incomprehensible penuriousness, refuse to help its own great Indian empire in its extremity of financial distress?"

This huge debt either due to the wars of the Company in Asia, Europe or Africa, or to the annual amount taken from India by way of "Home Charges", or to the Mutiny, was the inheritance with which the Government of India began in 1858, when it was brought under the Crown. The story of 1834 was repeated in 1858 without any hesitation. Section 42 of the Act for the better Government of India, 1858, provides that the dividend on the capital stock of the East India Company and all the bond, debenture and other debt of the Company in Great Britain, and all the territorial

1. Wingate, our financial relations with India, p. 29.

and other debts of the Company, should be "charged and chargeable upon the revenues of India".

The true origin and nature of the Public Debt of India is thus explained. The statements made by Anglo-Indian writers to the effect that most of the Public Debt of India is due to English capital invested in India to develop her resources ignore history and convey a wrong impression.

The position of the Debt before and after the Mutiny, and the increasing charges involved in the annual payment of interest can be seen from tables in the appendix. We find that during the year 1863, the debt was reduced to some extent, and remained at that level for three years. This was not due to any satisfactory condition of the finances; it was effected by curtailing the balances which had been unduly increased by the excessive loans incurred during the Mutiny. During the latter part of the first period, we find the amount of the debt gradually increasing. This was mainly due to expenditure on what were known as "Public Works Extraordinary." The total expenditure on this kind of works up to 1874 amounted to a little more than 17 crores of Rs. Deducting this sum from the amount of the debt, we find that the real debt was about 100 crores at the end of the first period. The increase, compared with 1865, was due partly to the last vestige of the policy discussed above, namely, a loan of £ 4½ m. to redeem the East India Stock. It was partly due to large sums of money that had to be spent on famine relief during the last two years of the period.

Productive and Unproductive Debt.

We shall now review the important changes that were introduced in the character of the debt from the second period.

The policy by which the Government of India incurred large amounts of debt every year in order to construct

public works has been discussed in some detail in the chapter on Commercial Services. We have noted that in spite of the unsteady character of their finances, the Government were always inclined to embark on extensive schemes of borrowing. This tendency was curbed on several occasions by the Secretary of State, but he was at last converted. The history of the Public Debt of India from 1867, is therefore, dominated by the effects of this policy.

Up to 1874, the total debt was 117 crores out of which more than 17 crores was due to Public Works. From 1875, we have the Debt classified into "Ordinary" and "Productive." This change was first introduced on the recommendations of the Select Committee of 1878.

After recommending that the limit of expenditure on productive works should be 2·5 m. £ they said[1] :—

(1) That the debt incurred for productive public works be kept separate from the permanent or general debt of India,

(2) and that all expenditure on the construction of productive public works should be treated as borrowed money, so that, if instead of borrowing to the full extent of such expenditure a part of the surplus revenue of the year can be devoted to this purpose, the general debt of India be treated as relieved, and the productive public works debt as increased to such an extent.

In accordance with these recommendations, the surplus revenue was not utilised in cancelling debt, but was invested in public works, for which the Government would otherwise have borrowed. With a view to show accurately the amount of this capital expenditure, the surplus revenue so expended was charged to the "public works debt" and a similar deduction was made from the "ordinary debt." In fact, a portion of the "ordinary debt" was thus

1. Report p. 21.

transferred to the "public works debt." Whenever, therefore, the Government had a surplus they at once reduced the "ordinary debt," and could show that the revenues were relieved of some burden on account of it. On the other hand, the "public works debt" increased, with a consequent increase in the interest charges for the same. The public works were, however, supposed to be "productive," or to earn their interest charges in a short time, and it was believed that the tax-payer would not be called upon to pay for the increasing interest charges on account of the "public works debt." We have seen, however, that the State incurred huge losses on account of Railways and Irrigation works during the last century. The apparent relief. to the taxpayer under "ordinary debt" was thus unreal.

Again, this method of transferring a *portion* of the "ordinary debt" to the "public works debt" encouraged the tendency of the Government of India to spend on public works at an extravagant rate. There was a natural check to this tendency due to the difficulties of finding the necessary funds by loan. But if they had a surplus, they need not raise a loan, or raise only a small amount. There was thus a strong impetus to them to keep up a high level of taxation, and to produce a surplus, with which they could on the one hand boast of prosperity, and on the other spend on public works without the odium and difficulties of going into the money market for loans. The existence of a surplus, was not a reason for remission of taxation; it became the basis of additional capital expenditure.

On account of the generally weak financial position created by the fall in exchange, the anticipated surpluses of the Government frequently vanished during the second period. Estimated expenditure based on such anticipated surpluses had either to be abandoned or led to additional borrowing. The tendency described above became more marked in the years after 1898, when the exchange

situation became steady, and when the Government derived large surpluses of revenue from the additional taxation, imposed in the previous years, because of the exchange trouble.

The transference of a certain portion of the "ordinary debt" to the "productive debt" was not the only way of creating that branch of the debt. Capital expenditure, which could not be thus provided, was met from loans, which became a part of the "productive debt". Besides, the Government incurred certain other liabilities of a similar nature by the purchase of certain railways and irrigation works from companies. The sums borrowed for this purpose were also added to the "productive debt." The total "productive debt" at the end of the second period was more than 169 crores, that is, the investments of the State in public works, other than those charged to revenue, from 1867 to 1898 amounted to this figure.

The amount of "ordinary debt" which was 102 crores in 1875 was reduced to 63 crores in 1898 or was less by 39 crores. It is evident from the figures, that more than 39 crores was transferred to the "productive debt," because the "ordinary debt" was increased during some years, on account of other causes. The increase in the beginning and at the end of the period was due to famine. The increase from 1887 to 1889 was due to war with Burma and other military activities on the frontier.

With the increase in Railway and Irrigation capital expenditure during the third period as explained elsewhere, we notice a steady addition to the productive debt which more than doubles itself during the 15 years from 1899 to 1913 (it rises from 192 crores to 392 crores). The effect of this on the ordinary debt due to the policy of transference is to steadily reduce that branch of the debt from 101 crores in 1899 to 18 crores in 1913. This shows that during this period, apart from temporary

causes of increase in the ordinary debt, like famines, a total sum of 83 crores from surplus revenue was availed of for capital expenditure which went to swell the productive debt, diminishing at the same time the ordinary debt. It is interesting to observe that by means of this method, the ordinary debt was reduced to the insignificant figure of only one crore in 1915.

Beginning with 1917 however, when India undertook to give a gift of 150 crores of rupees, raised by means of loans, to the Imperial Exchequer, for war purposes, this branch of the debt began to assume large proportions. The succession of heavy deficits since 1918 aggregating more than 100 crores in six years, in spite of heavy additional taxation during the same period has been another important cause which has led to the increase in the unproductive debt of India.

During the war, capital expenditure on railways and irrigation could not be kept up at a high figure; the increase in the productive debt therefore is small during the war period, though there is a substantial increase in recent years on account of the decision to spend 150 crores on railways during five years beginning from 1922.

The total debt of India on 31st March 1924 was constituted as follows :—

	crores of Rs.
In India	360·92
In England	393·12
Unfunded	73·35
Railway liabilities	90·14
Total	917·53
Including Treasury Bills in Paper Currency Reserve	49·65
	967·18
This is classified as under :—	
Productive	578·39
Ordinary	228·45
Provincial Governments	98·81
	905·65

This is less than the total figure by 11·88 crores which represents the discount at which some of the loans were issued. This is treated as an interest charge and appropriations from revenue are made every year with a view to extinguish it within the period of each loan. The Treasury Bills held in the Paper Currency Reserve are considered as not entirely comparable to ordinary debt, and hence are separately shown. If they are taken into account, the ordinary debt will amount to 278·1 crores. The item Railway liabilities shows the capital value of the liabilities undergoing redemption by means of Terminable Railway Annuities.

Interest on Debt.

In the statement of expenditure attached to the last Budget, we find the following sub-heads under the group "Debt Services":—

19—Interest on Ordinary Debt.

Deduct—Amount chargeable to—

Railways

Irrigation

Posts and Telegraphs

Provincial Governments

Remainder chargeable to Ordinary Debt.

20—Interest on other Obligations.

21—Reduction or Avoidance of Debt.

Total.

The phrase Ordinary Debt has been used twice in the above classification in two different senses. As a rule Ordinary Debt is contrasted with Productive Debt and it is in this sense that we have it in the heading "Remainder chargeable to Ordinary Debt." The heading "Interest on Ordinary Debt" means the total amount of interest which the Government has to pay both on productive and ordinary debt taken together. The phrase "Interest on

Public Debt " or " Interest on Total Debt " would be more intelligible.

We see from the above classification that in order to arrive at the interest on Ordinary or Unproductive Debt, the interest chargeable to Commercial Departments and Provincial Governments is first deducted from the interest on Total Debt. "The amount of interest transferred to the accounts of the commercial departments depends, firstly, on the capital expenditure; secondly, on the actual payment of interest on that portion of the debt which has been incurred specifically on account of the construction or purchase of Railways; and thirdly, on the rate at which interest is charged on that portion of the debt which has not been specifically raised for the above or other purpose. The present procedure is to charge to railways, posts and telegraphs and irrigation works, in respect of that portion of the debt which has not been incurred specifically for these works, interest on capital expenditure incurred to the end of 1916-17 at the rate of interest specified in the Devolution Rules and interest on capital outlay in subsequent years at the average rate paid on borrowings in that period."[1]

Under the Reforms, what is known as the Provincial Loan Account has been separated from the accounts of the Government of India. The Provincial Governments are charged for any advance made to them by the Government of India before the Reforms, as also for new loans which may be incurred by the provinces under the Act of 1919. The interest for which the Provincial Revenues are thus liable is deducted from the interest on total debt as shown in the classification given above for the purposes of the central accounts.

After making these deductions we come to the interest chargeable to Ordinary Debt. As against this, the Government of India gets certain receipts on account of loans

1. Budget for 1923-24, p. 102.

advanced to local bodies, municipalities and others. Some receipts are also derived from the investment of government balances and reserves. Before the Reforms, the interest paid by Provincial Governments on loans advanced to them by the Central Government was included in these receipts. The average receipts during the different periods were as under :—

			Lakhs of Rs.
First period	...	...	28·7
Second period	...	...	79·9
Third period	...	...	164·8
Fourth period	...	...	318·5

The average annual interest charges on the ordinary debt after deducting these receipts are as under :—

			Crores of Rs.
First period	...	...	5·1
Second period	...	...	3·7
Third period	...	...	0·48
Fourth period	...	...	2·9

In the first period, part of the interest charges was due to capital expenditure on productive public works, because the productive debt was not then separated. The marked reduction in the net burden on account of ordinary debt particularly in the third period is due to the procedure by which the ordinary debt was gradually reduced as explained before. The average for the fourth period does not fully show the burden on the revenues in recent years, as the growth of the unproductive debt dates from 1917, and the period begins from 1914, the debt in the interval being very small.

In the accounts of the Government of India, there seems to be an obvious confusion in the classification of different kinds of debt. In addition to the permanent debt, we have the floating or temporary debt and the unfunded

debt. The floating debt includes Treasury Bills issued either to the public or to the Paper Currency Reserve, and other temporary loans. The unfunded debt includes the Post-Office cash certificates, deposits of service funds, and savings bank deposits. The floating debt has assumed inportance since the war; the unfunded debt had a place in the earlier accounts. The usual definitions[1] of these terms to be found in well known works on public finance, do not seem to have been observed.

The item "interest on other obligations" in the above classification refers to interest on what is called 'unfunded debt," that is, on Post-Office Cash Certificates, deposits of service funds and savings bank deposits. The interest on "floating debt", consisting chiefly of Treasury Bills is included in the interest on Ordinary Debt. The "interest on other obligations" amounted to a small sum in earlier years; it has now grown in dimensions on account of the increase in that branch of the debt as explained above. It was more than 2 crores in 1920; it exceeds 3 crores in recent years.

Sinking Fund.

We had no Sinking Fund in India till recently. The Sinking Fund in England started in 1875, was a useful machinery for the reduction of the burden of debt. By a permanent Act of Parliament, a fixed sum, greatly in excess of the charge of the debt, was set aside every year. The balance after the interest on the existing debt had been paid constituted the Sinking Fund. This was applied to the redemption of debt, which reduced the annual interest charges, thereby increasing its own amount. This fund was not affected by the fluctuations of surplus or deficit in the annual accounts.

In India, a part of the Famine Grant may be said to have served the purposes of a Sinking Fund to some

1. Cf. Plehn, pp. 356-358.

extent. The Welby Commission made certain suggestions to make the Famine Grant more effective in reducing the debt.[1] The method by which the ordinary debt is reduced by transferring portions of it to the productive debt with the help of the annual surplus, has also the effect of a Sinking Fund to some extent.

A Sinking Fund for the reduction of debt was for the first time created in India in 1917 in connection with the war loans of that year. The five per cent. War Loan, 1929-47, was issued at 95, and the Government of India set apart every year a sum equal to 1½ per cent. of the amount of the loan out of which the securities of the loan whenever the market price falls below 95 were to be purchased and cancelled. The same procedure was adopted in connection with the subsequent loans of 1919, 1920 and 1921. In course of time, however, it was found that this had no appreciable effect in keeping up the price, and therefore a further sum of Rs. 80 lakhs a year was set apart for the same purpose since March 1921. This has not been required in 1923 and 1924. In addition to this, there is an annual provision of about £500,000 in connection with the portion of the British Government's war loan taken over by India as part of her War Contribution. This provision for sinking fund will by gradually reducing the capital amount of the debt reduce the interest burden in future years; for the present however, it operates as an additional burden on the general revenues to the extent of more than 2 crores of rupees.

So long as the Government of India has a substantial programme of capital expenditure, this provision for sinking fund has the effect not of reducing the total debt, but of reducing that branch of it which is unproductive. The amount in question operates like a contribution from revenue for capital expenditure. The effect is exactly similar to

1. Cf. Report, para 29.

that of the process by which the ordinary debt was transferred to the productive debt in earlier years. The difference is that whereas formerly the transference took place only when there was a surplus; now the transference is a regular part of the financial system due to the provision for Sinking Fund. In view of these reasons, Sir Basil Blackett prefers to describe this provision as a contribution out of revenue for reduction or avoidance of debt.[1]

Proposals for Debt Redemption.

In his Budget Speech for 1924-25, Sir Basil Blackett discussed this question at some length, and laid down certain general principles for the gradual redemption of the Indian Debt. In addition to the provision for Sinking Fund explained above, he took into account that portion of the Railway annuities, which represents repayment of capital, and also the provision for sinking fund in the Railway Revenue Account. A new system has been introduced in the accounts by which this charge will henceforth be excluded from the Railway budget, and treated along with the other provision for the reduction or avoidance of debt. The object of doing this is to a have a clear idea of the total provision against the total debt with a view to ascertain whether it is sufficient.

Sir Basil Blackett pointed out that the existing provision was largely the result of accident, due to contracts with railway companies to buy up their property by means of terminable annuities, and with subscribers to the 5 per cent. war loans to provide a depreciation fund. These obligations amounted to 372 lakhs in the estimates for 1923-24; the only optional payment being the extra 80 lakhs for additional depreciation funds for the 5 per cent. loans. The provision involved no criterion and it was necessary to aim "at a regular programme based on stable and well considered principles, not subject to

1. Budget Speech, 1924, para 29.

haphazard changes." The best way of arriving at such a programme was to take the gross total of the debt, examine the capital assets against it, and fix approximate periods within which it was desirable to amortise each category of debt. The total debt on 31st March 1924 was 917·53 crores. This does not include the 49·65 crores of Treasury Bills in the Paper Currency Reserve; the Paper Currency Act provides for their redemption. Out of the above total, the debt due to the Provincial Governments is 98·81 crores. These Governments are making their own arrangements for the repayment of this debt and it is proposed to put them on a regular footing and to establish a Provincial Loans Fund. Deducting this, as well as the sum of 11·88 crores which represents discount on past loans, we have a net total of 806·84 crores, of which 578·39 crores is productive and the rest 228·45 crores is unproductive debt. Out of the latter figure, 98 crores represent the accumulated deficits of the five years ending 31st March 1923. New Delhi accounts for 9·85 crores. The remainder 120·6 crores may be said to be our war debt.

Sir Basil suggests different periods for the redemption of different classes of debt.—80 years for productive debt; 50 years for war debt; 25 years for debt due to deficits, and 15 years for debt due to New Delhi. Applying these periods to the different classes of debt, and assuming that the annual provision would be set aside to accumulate at 5 per cent. compound interest, we get the figure of 3·66 crores as the necessary annual provision. It would however not be convenient to allow this sum to accumulate at compound interest; it must be spent either on actual repayment of existing debt or for capital expenditure, thus reducing the amount of new loans. In this way the amount of interest to be paid in future years will be reduced. According to the above supposition the provision in each succeeding year should be larger, because it would include the interest on the provision for

the former year. In order to avoid this cumbrous arrangement, Sir Basil took the average figure of 4 crores as an adequate provision for the next five years. This does not take into account future additions to the debt, and so far as productive debt in the future is concerned it is suggested that an additional provision of one-eightieth of such new debt may be made every year. It is highly desirable to have a statutory programme for debt redeption on these lines.

Rupee and Sterling Debt.

Some features of the Public Debt of India which make it burdensome have not yet been explained. The debt consists of rupee loans raised in India and sterling loans raised in England. Up to the Mutiny the sterling debt was small. It rapidly increased from that time. No portion of the Sterling Debt is held by natives of India and the interest charges on this debt go out of the country and form an important item in "the English Charges".

Even of the rupee debt only a small percentage was held by the people of the country. It was this circumstance which drew the attention of the Duke of Argyll, who in his despatch of 5-2-1869 pointed out with regret[1] "that of the existing Government debt, the proportion held by natives has diminished of late years". It was ascertained by him that the interest of the people of the country in the rupee debt was 36 per cent in 1847, 34 per cent in 1861, and less than 24½ per cent in 1867. After showing the value of securities in England and India, he observed that "having regard to the comparatively little difference in the value of securities in India and in England thus shown, to the political advantage which attends borrowing in India, and to the fact that the interest of such loans is paid without the inconvenience or risk of remittance, it appears to be desirable that you should obtain in India as large a portion

1. P. P. 389 of 1870, pp. 32-34.

as practicable of any loans which may be required." The stake of the people of the country in the rupee debt slightly increased after this; it was 36 per cent in 1874, the same as in 1847.

The problem of raising loans in India was considered by the Select Committee of 1878, and they arrived at the following conclusions[1]:—

"Your Committee, while making allowance for these difficulties, are clearly of opinion that loans for Public Works in India should always be raised in India, unless the Secretary of State in Council should be satisfied that the difference between the rates of interest in England and India is so considerable as to afford full compensation for the disadvantages which inevitably attend borrowing in this country. And they concur in the communication of the Secretary of State to the Viceroy, in which he requests that, whenever it is possible, a certain portion of the Famine Insurance Fund should be remmitted to this country, and applied to investment in, and thus to the reduction of the debt raised in London for famine expenditure.

"Your Committee are also of opinion that greater opportunities should be afforded to natives in the interior of the country to subscribe in small sums to the loans of the Indian Government."

The Government of India seem to have made some efforts to put both these recommendations into practice. In the few years, immediately after 1878, we find that the rupee debt increases at a greater rate than the sterling debt, which does not change materially in the years 1881 to 1883. But the Government seem to have found this restriction very distasteful as being a great check on their ideas of large investments in public works. The Select Committee of 1884, which was in favour of a more rapid construction of railways came to their rescue. They were of opinion that "for political as well as for financial reasons, it is desirable that loans should, as far as possible be raised in India; but they do not believe that rupee loans,

1. Report p. 21.

which are not really absorbed in India, differ materially in their effect upon exchange from sterling loans, as, if held in Europe, the interest upon them will probably be remitted from India, and will come into the exchange market. They would, therefore, recommend, quoting the words of the Report of the Select Committee of 1879, that, when 'the difference between the rates of interest in India and in England is so considerable as to afford full compensation for the great comparative disadvantages which inevitably attend borrowing in this country,' the Secretary of State in Council should not hesitate to borrow such moderate sums in this country as will enable the Government of India to complete such public works as shall have obtained his sanction[1]." The advantage that the authorities took of this last provision is evident from the figures of sterling and rupee debt given in the appendix. The sterling debt after 1884 increases at a far greater rate than the rupee debt. The effect was to make a great addition to the interest charges payable in sterling. We have in this period on the one hand, the Government complaining from year to year that the gradual fall in exchange upset all their calculations by increasing the burden of sterling payments and thus frequently landed them in deficit; on the other we see the Government increasing these very sterling payments by their practice of borrowing largely in England. Their public works policy, however benevolent, became a passion for reckless expenditure, which closed their eyes against all consequences, and increased the very troubles from which they were struggling to escape.

The Mackay Committee of 1907 which recommended 14 m. £. a year as the capital expenditure on railways and irrigation works, laid down that out of this, a sum of 5 m. £. or 7½ crores of rupees should be raised in India. We find, however, that the sterling debt increases at a much greater

1. S.C. 1884 on Railways in India.

speed than the rupee debt in the years 1908 to 1913. Considering the third period as a whole the rupee debt increased from 112 crores to 145 crores, that is, by 33 crores as against an increase in the sterling debt from 124 m. £. to 177 m. £, that is, by 53 m. £. or 79½ crores of rupees.

During the war, when England herself was in the supreme need of mobilising her financial resources, it was not possible for the Indian authorities to float sterling loans in England. It was this circumstance which created an opportunity to utilise the latent resources of India, particularly in connection with the war loans beginning from 1917. Whereas before the war, the rupee loan did not exceed 3 crores in any one year, in 1917 and 1918, the extraordinary amounts of 53 and 57 crores respectively were raised in India. The subsequent loans either for the European War or for the third Afghan War, or more recently for capital expenditure on railway, irrigation and development schemes have shown that large sums of money can be regularly raised in India for the Public Debt.

The Acworth Committee attached great importance to this question, and considering every point of view—financial, economic, and political—they recommended that "the money required for Indian Railways should as far as possible be raised in India ".[1] And they suggested a wider and more popular organisation for the raising of government loans in India.

It is curious however to find that in spite of the experience of the war period, early in 1921 when the Acworth Committee was still busy with its report in London, the Secretary of State issued a sterling loan of 7½ m. £. The terms of the loan were highly attractive; it was issued at 7 per cent; was redeemable at par in ten years; and offered generous terms of conversion. It was no wonder that the loan was over-subscribed eleven times

1. Report, paras 246–247.

in twenty-four hours. This procedure evoked great criticism in India with the consequence that facilities are given to Indian investors in the case of subsequent sterling loans.

One of the arguments by which the policy of borrowing in England is defended is that the rate of interest is smaller in England than in India, and it is therefore cheaper to borrow in England. It is generally true that it is cheaper to raise a loan in England than in India only if the rate of interest be considered. But the real question at issue is whether the advantage gained by the lower rate of interest paid in England is sufficient to compensate for the great disadvantage of having to pay interest charges in a foreign currency, which either involves huge losses by exchange, or introduces an element of great uncertainty in all financial calculations, as happened during the second period as well as during recent years.[1] Even

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1. Cf. Fawcett, p. 130 :—" It is obvious that any country which receives its revenue in one metal and undertakes to make large payments in another, enters into a very speculative undertaking."

Cf. also the opinion of the Government of India themselves in their letter of 13-10-1876 to the Secretary of State, printed in P. P. 449 of 1893 :—" In the present state of uncertainty as to the future relative values of silver and gold, we heartily concur with your Lordship in thinking that nothing should induce us to increase our Sterling obligations, if we can by any means avoid doing so."

Cf. also the opinion of Sir David Barbour in his F. S. 1889, pp. 99–100 :—" It is contrary to sound principle, for a country to incur obligations in any standard other than its own—a principle which we have already violated to a greater extent than is either prudent or safe......Looking, then to the fact that we have already incurred heavy gold obligations, that we are at this moment borrowing largely in gold, that we may have to borrow still more largely in this way, and that we know nothing of the future relative value of gold and silver, I think it is only a matter of of ordinary prudence that in a time of peace we should incur some loss, in order to avoid adding to what is already a cause of embarrassment and might become a source of donger. Both from a political and an economic point of view there are great advantages in raising money in India."

if the political and other considerations be set aside, these questions of the loss by exchange, and the uncertainty in financial calculations are by themselves sufficiently strong to show the weakness of the policy of the Government. We have given in the appendix a table containing a detailed statement of the composition of the rupee and sterling debts in the years 1861, 1875, 1898, 1913 and 1919.[1] We notice that the average rate of interest on the total rupee debt is somewhat larger than that on the total sterling debt, though in two of the selected years, 1875 and 1913, the rate of interest on the rupee debt was more favourable. The difference in the rates of interest in 1919, is not so burdensome as it appears at first sight. During the war period, the rate of interest on public loans had to be increased in all countries. The difference between the war rate of interest on the rupee and sterling loans is not very great, being higher by ½ per cent. in the case of rupee loans, in some cases only. But as explained above, there was a greater addition to the rupee debt incurred at higher rates of interest on account of the war, than to the sterling debt. This explains the reason why the average rate of interest on rupee debt in 1919 goes up to 4·11 as compared with 3·19 in 1913, whereas the corresponding rates on the sterling debt are 3·22 and 3·03 for 1913 and 1919 respectively.

Small Investors :—With a view to adopt the other recommendation of the Select Committee of 1878—to encourage the investment of small sums by the people of the country, the Government issued what were known as "Stock Notes" in 1882.[2] They were in four denominations Rs. 12½, Rs. 25, Rs. 50 and Rs. 100. They were issued at par, and bore interest at 4 per cent. Compared with the ordinary Government securities they differed in

1. The last year for which figures are available at the time of writing.

2. *Cf.* F. S. 1882, Appendix B.

several respects. They were in small denominations; the interest was payable yearly instead of half-yearly; and they were not enfaceable to Europe. At the same time, they were easily obtainable at all treasuries, were transferable by simple delivery, and were exempt from all taxation.

The experiment proved a failure. After six years the Government found that only Rs. 1,623,500 had been invested in "Stock Notes" and that the "public would not adopt these securities as a regular form of investment." Accordingly, in August 1888, orders were issued authorising the (1) payment in cash at par of "Stock Notes" of less value than Rs. 100, and (2) the conversion into Government Promissory Notes of "Stock Notes," of the denomination of Rs. 100. Within a few months, most of the "Stock Notes" were either converted as above or cashed.[1]

After the failure of the "Stock Notes" during 1882-1888, no further effort was made to induce the large masses of the people in India to invest in public loans till 1917, when in connection with the war loans what are known as the Post Office Cash Certificates were issued. These certificates have a currency of five years at the end of which they are repaid. They are issued in the denominations of the face value of Rs. 10, 20, 50, 100 and 500, and they are obtainable at Rs. 7-12, 15-8, 38-12, 77-8, 387-8 respectively, the difference between the two being the profit or interest to the investor. The investor is at liberty to cash the certificate at any time before the expiry of five years, when he will receive an amount "which according to the time he has held this certificate gradually increases at compound interest from the original purchase price up to the full face value of the certificate at the end of 5 years." The profit on these certificates is exempted from income-tax. The transactions in connection with

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1. F. S. 1889.

them are made at all post offices which do savings bank business.

In spite of the efforts made to popularise the Post Office Cash Certificates, the people do not seem to have taken a liking for this form of investment. On account of the great pressure brought upon the people by District Officers and others when they were first introduced in 1917, about 10 crores of rupees were invested in them. But the earliest opportunity was taken by a large number of people to encash these certificates long before the expiry of the period of five years for which they were to run. The following table[1] showing the steady reduction from year to year up to 1922 in this branch of the debt bears out the above remarks. This does not necessarily mean that the people would not invest in this form of debt under any circumstances. It is possible that the meaning and value of these certificates is not yet understood by many illiterate people in the villages; examples are not rare of those who invested in them during the war on account of official pressure, and did not realise that they were documents of value, with the result that they were either cashed at the earliest opportunity or even sold to others at nominal prices.

1. Post Office Cash Certificates.—

(In lakhs of Rs.)

	Receipts.	Disbursements.	Net Result.
1917 ...	990	105	+885
1918 ...	315	390	— 75
1919 ...	86.5	330 7	—244
1920 ...	52	149·6	— 97·6
1921 ...	47·9	91·4	— 43·5
1922 ...	70	191	—121
R 1923 ...	700	162	+588
B. 1924 ...	300	150	+150
			+10,92

A systematic propaganda calculated to inspire confidence in the minds of the people, and better and more easily intelligible facilities for dealing in them than already exist will go far to improve the situation revealed by the figures quoted. The Acworth Committee was alive to this fact,[1] and Sir Basil Blackett looks forward to a development of this system, so that a great part, if not the whole, of the money required for provincial capital expenditure could be found out of the proceeds of Cash Certificates.[2] It is due to Sir Basil's initiative that they are now issued at a rate which works out at 6 per cent compound interest on maturity, in place of the old rate of about 5¼ per cent. This accounts for the recent great improvement in the net holding of these certificates, as can be seen from the table already given.

In view of the great increase in the rupee debt since 1917, and in view of the gradual change in the policy regarding the floating of loans, we find that the total of the rupee debt is not much below that of the sterling debt. The rupee debt increased from 145 crores in 1913 to 434 crores in 1924, that is, by 289 crores. The sterling debt increased from 177 m. £ in 1913 to 322 m. £ (equal to 483 crores at 1 s. 4 d.), that is, by 145 m. £ or 217 crores. We notice that more than half of the debt is still in sterling.

We may now consider the stake of the people of India in the rupee debt from time to time, as shown in the following table:—

Year.	Percentage of rupee debt held by Indians.	Year.	Percentage of rupee debt held by Indians.
1847	36	1885	26·8
1861	34	1898	41
1867	24½	1913	54
1874	36	1917	50 (*a*)

(*a*) This figure is approximate. Recent figures are not available.

1. Report, para, 247.
2. Budget Speech, 1923-24, para 22.

The percentage before 1898 is not at all encouraging. The rise in 1898 is partly due to a change in classification.[1] In 1913, a little more than half of the rupee debt was held by Indians. Though recent figures are not available, it is generally true to say that about half the rupee debt is held by the people of the country.

Besides, part of the rupee debt which is in the hands of Europeans is in effect transferred to London. Facilities are offered by Government for enfacing the rupee securities for payment of interest in London. The interest on this portion of the rupee debt is therefore paid out of India. For example, in 1898, the total rupee debt was 112 crores. Out of this nearly 66 crores was held by Europeans, of which, the interest on 21 crores was payable in London. This meant that more than 18 per cent. of the total rupee debt was held out of India, in 1898. The figure of the rupee debt held in London is gradually diminishing; it was 10 crores in 1913 and about 7 crores in 1919.

It is evident that this is different from the sterling debt, the whole of which is held abroad by Europeans. The amount of the sterling debt was considerably larger than that of the rupee debt till recently; even now the rupee debt has not approached the figure of the sterling debt. The sterling interest charges amounted to—

3·1 m. £ in 1898
5·6 m. £ in 1913
7·2 m. £ in 1921.

Besides this the interest on the rupee debt held in London is also paid out of the country. In the words of Sir Basil Blackett[2] "the sterling debt represents a claim on India's production of goods and services in the future up to the value of the principal together with a further claim on those goods and services for interest during the

1. This is explained in the appendix.
2. Budget speech, 1923-24, para. 24.

interval until the principal is paid off." This burden is further increased by the frequent fluctuations in the rupee-sterling exchange.

It is well known that large amounts of precious metals have been absorbed in India. The non-monetary use of gold and silver in India is perhaps greater than in other countries. This is chiefly due to social customs. The people of India are often accused of what is called "the habit of hoarding." Making full allowance for these considerations, it cannot be said that they explain all the causes why the people of India invest so little in the public debt of their country. Those who know the nature and feelings of the people, as well as their ignorance, can appreciate the only great reason that explains the situation, namely, the want of confidence in a foreign government. If the importance of public investments were brought home to them, if they could be made to understand that these loans were to be spent economically (which was unfortunately not always a fact) for the good of their country, the people of India would not be slow to put their savings or hoardings at the disposal of the Government. Unfortunately, it is not untrue to say that want of confidence in the Government, in their general financial policy, and from 1893 in their currency policy, are among the chief causes which encourage the people in hoarding.

This situation is gradually improving with a change in the policy of the Government in the matter of public loans which can be seen from the following statement by Sir Basil Blackett made so recently as the 12th of July 1924[1] :—

"The continuance of the programme of capital development both of the Central Government and of the Provincial Governments depends primarily on the people of India being willing year by year to subscribe for rupee loans on a scale very much larger than was customary before the war. There is, of course, always the

1. Speech at the opening ceremony of the Calcutta premises of the Central Bank of India.

possibility of resorting to an external loan in London or elsewhere, but if this can be avoided as we have avoided it this year, India clearly gains by being the full owner of the Railways or irrigation works or other works of public utility on which the money has been spent instead of having to some extent as it was to mortgage these undertakings to lenders in London. The amount of the loan for which we are asking this year is 15 crores only. An official announcement will be made on Monday. This means a reduction of 5 crores on the figure tentatively suggested in my last Budget speech. We have been able to reduce our demand on the money market mainly because of the continued inflow of money into the Post Office Cash Certificates. The amount required, therefore, is a modest one, and I have no doubt that it will be readily subscribed. A year ago we issued the 1945–55 long term loan at 96, which we are this year issuing at 99. The short term ten years bonds were issued last year at 97 and the same bonds are being issued this year at 98-4. The opportunities for getting Government security at a high rate of interest are gradually passing away in India as in England, and with the improvement in our general financial situation I look forward to being able in future years to obtain rupee loans on still better terms. Meanwhile, I can confidently recommend the forthcoming issue both as a satisfactory investment and as an opportunity for Indian capital to further the development of India's heritage."

NOTE ON THE FORMS OF DEBT ETC.

Permanent Debt :—This may be in the form of terminable or non-terminable loans. In the latter case, Government only pays interest; the redemption of the debt is at its option. Terminable loans are repaid on the dates specified. Either kind of loans is issued in the form of Stocks, Bearer Bonds or Promissory Notes.

Stock :—In this case, a stock certificate is issued to the owner to the effect that his name has been registered in the Public Debt Office as holding a certain amount of stock. "It is a very convenient form of security for a person who does not wish to negotiate it and is immune against loss by theft, fire, etc., and is of no value in the hands of a wrongful holder. Interest is paid on warrants made payable at any treasury or sub-treasury at which payment is disired."

Bearer Bond :—This is very easy to negotiate, for the bond certifies that the bearer is entitled to a sum of rupees specified on it. It can change hands like a currency note. Interest is paid on the presentation of the interest coupon attached to the bond. The loss of the bond deprives the owner of his title and therefore it gives opportunities to fradulent people.

Promissory Note :—This is in the form of a promise by the Governor-General in Council (or Governor-in-Council) on behalf of the Secretary of State to pay a certain person a specified sum on a certain date or after notice, and to pay interest on it every six months at a certain rate. On the back of the note, cages are printed for endorsement while negotiating the note.

The Government gives facilities to convert each of the above securities into either of the other two.

Temporary Debt :—The main forms in which this is issued are Ways and Means Advances, Treasury Bills, and Government Bonds.

Ways and Means Advances :—Whereas the expenditure of the Government is more or less uniform throughout the year, the revenue is not received regularly. Besides, there may be occasions of heavy payments, without a sufficiently large balance on hand at the time. For such purposes, the Government takes temporary accommodation from banks. Both the principal and the interest are repaid in course of the financial year. The Government of India takes such advances from the Imperial Bank.

Treasury Bills :—Unlike the Ways and Means advances, Treasury Bills are issued to the public. They are for short periods, from 2 or 3 to 12 months. If such Bills are renewed from time to time, they become in effect a part of the permanent debt of the country. Sometimes competitive tenders are invited for these bills; in other cases the rate of issue is fixed by the Government. Such bills were issued in India in 1917, and since then are used for the ways and means arrangements. A portion of the permanent debt is also held in this form, the bills being renewed from time to time.

Government Bonds :—These are also known as Exchequer Bonds and are issued for periods of 3, 5 or 10 years. A considerable portion of our short-term debt incurred during the war is in this form.

Post Office Cash Certificates :—The nature of this form of debt has been explained in the text.

Statutory position in the matter of raising Loans.

This was explained by Earl Winterton, then Under-Secretary of State for India, in connection with the East India Loans (Railways and Irrigation) Act, 1922, in these words:—"The Government of India are free to borrow money in India without authority from Parliament. That has been the position ever since the Government of India Act in the fifties, and they do, of course, raise money in the way Governments raise money, in India. But under the Government of India Act money can only be raised in the United Kingdom by the Secretary of State on behalf of the Government of India to such an extent as is authorised by Act of Parliament. For that reason, ever since the Government of India Act was passed, the Government of India, through the Secretary of State in this House, has come to Parliament from time to time to get authority to raise money in this country for its future requirements".

The Administration of the Public Debt.

"The administration of the public debt in India and the maintenance of the accounts relating thereto are vested in the Central Public Debt Office, Calcutta, which is managed on behalf of Government by the Imperial Bank of India and works under general instructions of the Controller of the Currency.

Similarly, in England, the sterling debt of India is managed by the Banks of England, and Ireland. The rupee debt of the Government of India enfaced on London was till recently managed by the Bank of England, but with effect from January 26, 1924 this work has been taken over by the London Office of the Imperial Bank of India.

For this work the Imperial Bank of India and the Banks of England and Ireland are paid at fixed rates, depending upon the amount of the debt registered on their books. The rate payable to the Bank of England is £ 300 per million of the debt and to the Bank of Ireland at £ 360 per million.

The rate paid to the Imperial Bank of India for the debt of the Central Government is Rs. 2000 per crore of the debt. Provincial Governments make their own arrangements with the Imperial Bank for the management of the provincial debt."

For detailed information on the subject matter of this Note the reader is referred to Wattal's System of Financial Administration in British India, chapter 8, on which it has been mainly based, and to the Guide Book for investors in Government of India securities, published by Government.

CHAPTER XI.

ENGLISH CHARGES.

The term "Home Charges" is a great anomaly in the accounts of the Government of India. These charges represent the expenditure incurred in sterling in England by the Secretary of State for India. It was natural for the English officials in the early days of the Company to select this term to represent these charges, for they were paid to their "home". From the point of view of the Indian taxpayer who contributes to these payments, these charges are paid out of his "home". To avoid this ambiguity, we shall speak of these charges as the "English Charges" of the Government of India.

These charges are due to the expenditure which the Secretary of State and now the High Commissioner also, incur in England on behalf of India. The establishments of these two officers, recruitment of persons for civil or military employment in India and their pensions, the purchase of stores of all kinds, for civil departments, for military purposes, as well as for the construction of railways and other public works in India, and above all the interest on the sterling debt of India, are among the chief items which are collectively known as "Home Charges". They amounted to £ 3·5 m. in 1856; in 1861 they were £ 8 m; in 1875 they rose to £ 12·8 m; and reached £ 16·3 m. in 1898. In recent years, the figure has considerably increased. From £ 20 m. in 1913, it rose to more than £ 30 m. in 1920, and has not shown a tendency to decline since then. The average English Charges in different periods work out as under :—

	m. £.
First period	10·5
Second period	14·9
Third period	18·9
Fourth period	23·9

These charges have been strongly criticised as constituting a regular drain on the economic resources of India.[1] There are some items in these charges which have justified several critics in calling them "a tribute" exacted by England from India.[2] For the sake of convenience

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1. Refer particularly to—Dadabhai Naoroji, Poverty and Un-British Rule in India; Dutt—Economic History of India 2 vols; Digby—Prosperous British India; Lajpat Rai—England's Debt to India. Cf. "More than twenty years ago the late Sir Louis Mallet (I presume with the knowledge and consent of Lord Cranbrook, then Secretary of State for India, and of my friend the late Edward Stanhope, then Under-Secretary) put at my disposal the confidential documents in the India Office, from Indian finance ministers and others, bearing on this question of the drain from India to England and its effects. The situation is, to my mind, so desperate that I consider I am entitled to call on Lord George Hamilton to submit the confidential memoranda on this subject, upto and after the year 1880, for the consideration of the House of Commons. I venture to assert that the public will be astonished to read the names of those who (privately) are at one with me on this matter. As to remedy there is but one, and it is almost too late for that; the stanching of the drain and the steady substitution of native rule, under light English supervision, for our present ruinous system."—H. M. Hyndman, the great Socialist leader, in a letter to the Morning Post, July 2nd 1901; quoted by Lajpat Rai Ibid p. 70.

2. Cf. Sir George Wingate—"Our Financial Relations with India, 1859" p. 8.—"Tribute is a payment made by one country to another, in consequence of subjection. It is a transference of a portion of the annual revenue of the subject-country to the ruling country, without any material equivalent being given in exchange. Its effect is, of course, to impoverish the one country, and to enrich the other; and wherever these conditions are fulfilled, a tribute exists, whether the annual payment be so styled, or not. The exaction of a tribute from India, as a conquered country, would sound harsh and tyrannical in English ears; so the real nature of the Indian contribution has been carefully, though possibly unwittingly concealed, from the British Public, under the more inoffensive appellation of Home charges of the Government of India."

we shall discuss these charges into the following seven heads, and try to find out the elements of drain or tribute in each, or any other hardship from which India may have suffered on account of them. A statistical analysis of these charges, specially prepared for the purposes of this chapter, will be found in the appendix. The seven heads are:—

(1) Dividends to the Proprietors of the East India Stock.

(2) Interest on Debt.

(3) Guaranteed Interest or Railway and Irrigation revenue account.

(4) Civil.

(5) Military and Marine.

(6) Stores.

(7) Capital Expenditure for Public Works in India.

(1) Dividends to the Proprietors of the East India Stock.

From 1834 to 1874, we find that a sum of £ 630,000 was paid under this head. In the preceding chapter we have considered at length the procedure which was followed in 1834 when the Company ceased to be a commercial body. We have shown how in addition to the Debt of the Company, an unjust burden was thrown on the people of India in the form of those dividends. We have also noted that the Fund created to redeem this stock in 1874, was valued at £ 7½ m. only, at that date, and therefore, the Secretary of State added £ 4½ m. to the Debt of India to make up the required sum of £ 12 m. for the redemption of the stock.

We can have no hesitation in saying that this sum of £ 630,000 paid up to 1874, and the interest charges in subsequent years due to the loan of £ 4½ m. incurred to redeem the Stock, were unjustly taken from India and

constituted a tribute taken from her and a drain on her resources.[1]

(2) *Interest on Debt.*

In the former chapter, it has been shown that the Debt of the Company before the Mutiny was due partly to wars both in and outside India, and partly to the English Charges during those years. It represented the money with which India was conquered. The cost of the Mutiny (40 m. £.) was added to this figure, and in 1858, the Company came to an end, bequeathing to the Government of India the debt which it had incurred with the sanction of Parliament in conquering India.

The chief causes which increased the ordinary debt after this were—the redemption of the East India Stock in 1874; famines during 1874-77 and 1896-1900; the second and third Afghan wars; forward policy on the North-west frontier, and the consequent succession of military operations in that quarter; the special war contribution of 150 crores in 1917 ; and the series of unparalleled deficits since 1918 aggregating more than 100 crares up to 1923.

The way in which the ordinary debt was reduced by transferring portions of it from time to time to the productive debt has been explained in the previous chapter. As a rule, this transference was made in the rupee debt, and hence we do not find any reduction in the interest charges on the sterling debt. The average annual charge for interest in England was :—

	m. £.
First period	1·5
Second period	2·5
Third period	2·5
Fourth period	3·5

It is difficult to determine the amount of sterling interest charges due to the causes mentioned above, the debt on account of which would go to swell the "ordinary debt."

1. Cf. Dutt, Vol. I, pp. 398-99.

It is easy, however, to see that making allowance for the increasing amounts of the productive debt and for the debt due to famines, the remaining interest charges in sterling were due to (1) the wars of the Company, (2) the cost of the Mutiny, (3) the Afghan wars and other frontier operations and (4) the burdens shouldered by India during the last War. The injustice of throwing the burdens on account of the first two on India has been shown in the former chapter; the mischief due to the forward policy of which the Afghan Wars, and other frontier operations were the outcome, and which still keeps the military expenditure on a high level has been explained in the chapter on Defence. Even if we do not consider the debt due to the forward policy, we still find that a large but diminishing portion of the interest charges on the sterling debt up to 1915, was due to the fact that India was paying to a certain extent in all these years for the cost of her own conquest by the British. The recent increase in the unproductive debt is mainly due to the war burdens undertaken by India. Part of this debt is in sterling, and therefore a part of the sterling interest charges since the War represent the price given by India for her Imperial connection.

We come to the conclusion, therefore, that a certain portion of the sterling interest is a drain on India's resources, and was in the nature of a tribute till recently. The remaining portion of the sterling interest, due to productive debt could have been reduced if the policy of raising loans in India had been adopted in the years before the War.

(3) Guaranteed Interest or Railway and Irrigation Revenue Accounts.

The figures in the first period under the item guaranteed interest correspond to a great extent to those in the other periods under Railway and Irrigation Accounts. The guaranteed interest paid in the other periods is included in

the Railway and Irrigation Accounts which also include the interest on the productive debt. The annual average amount of sterling expenditure under this head was as under:—

	m. £.
First period	3·5
Second period	5·2
Third period	6·9
Fourth period	9·6

It is easy to argue that Public Works constructed in India either by companies or the State have in all cases, contributed to the welfare of the country, that the extension of communications has increased her trade, and that Railways and Irrigation Works are of great help in times of famine, and that therefore, the price paid by India in the form of interest charges on the capital invested in these works is not great in comparison to the benefit received. The people of India are grateful for the manifold advantages of Railways and Irrigation Works, which owe their existence in a great measure to British capital and engineering skill.

But the question to be considered is different, whether these benefits could not have been obtained at a cheaper cost? In the chapter on Commercial Services, this question has been discussed at length. The way in which railways were built in India under the guarantee system involved the country in great financial losses and was abandoned in 1869. From that time the State undertook the construction of Public Works, and we have seen the systematic efforts of the Government of India to spend large sums of money at an extravagant rate, without due regard for the requirements and the capacity of the country. This policy led to borrowing on a large scale, the loans for which were often floated not in India but in England. As pointed out in the previous chapter, the difference in the rate of interest in England and India was not so great as to compensate

for the disadvantages of borrowing in England, but the policy was pursued and the indigenous hoards of the country were allowed to lie idle, because of the want of real efforts on the part of the Government to encourage the people in the methods of public investments.

If the mistakes connected with the guarantee system had not been committed, if the construction of Public Works by the State had been carried on without undue haste and consequent waste, if Indian capital had been used to a greater extent, the charges in England due to Public Works would have been materially reduced. To this extent then, India would have been called upon to pay a smaller price for the benefits of Railways and Irrigation Works, than she did.

The figures given above denote the gross expenditure in England under these heads. The receipts against them were received in India in rupees. We are here concerned with the money that went out of the country or that was spent in England, and not with the net expenditure under these heads. We may further note that to the extent to which these charges could have been reduced, if the considerations urged above had had effect, the loss due to exchange would have been similarly reduced.

(4) Civil.

Under this head there are many items, small and large, of a variety of character. We shall discuss some of the more important of these items.

India Office Establishment:—The figures under this head include the salaries of the Secretary of State, the Under-Secretaries, the members of Council, and the heads of departments. Till the beginning of the War, this charge was about £ 200,000. In recent years however, it has increased considerably; in 1921, the figure was £ 365,800. The injustice of levying this charge on India need not be discussed. It is sufficient to point out that after persistent

agitation, the Reform Act provided that " the salary of the Secretary of State shall be paid out of moneys provided by Parliament, and the salaries of his under-secretaries and any other expenses of his Department may be paid out of the revenues of India, or out of moneys provided by Parliament. "

The High Commissioner:—A new officer called the High Commissioner for India has been appointed in London under the Act of 1919. Functions of agency as distinguished from political functions are assigned to this officer who is under the control of the Government of India. The first transfer of work from the India Office to the High Commissioner took place on 1st October 1920, when the Store Department and the India Students' Department were taken over by the latter.[1]

In view of the provision under the Act, quoted above, the following general principles regarding the expenditure of the India Office have been laid down :—

"(1) The salary of the Parliamentary Under-Secretary of State as well as the salary of the Secretary of State be definitely placed on the British Parliamentary vote ;

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(1) It is interesting to note here that the expenses for the construction of the present building of the India Office were met from Indian revenues. They amounted to £ 588,000. The office of the High Commissioner has been located in other buildings, which have been rented for the purpose. The more equitable arrangement would be that either the High Commissioner should have his offices in the present building of the India Office, and that the Secretary of State should find his own building, or that the latter should pay an adequate rent to the former for the use of the present building, the control of which being of a non-political character would naturally fall in the hands of the High Commissioner.

It may be added that the cost of repairs of the India office building and a proportion of the rates are also charged to India. Cf. Supplementary Note to the Inchcape Committee's Report by Sir Purshottamdas Thakordas, p. 151.

(2) in the case of the remaining expenditure a distinction be drawn between the charges incidental to the political and administrative duties of the Secretary of State, acting as a Minister, and the agency business still conducted by the India Office on behalf of the Indian authorities; and

(3) that under this arrangement the British Treasury be liable for (a) the salaries and expenses (and ultimately pensions) of all officials and other persons engaged in the political and administrative work of the office as distinct from the agency work and (b) a proportionate share determined with regard to the distinction laid down in (a) of the cost of the maintenance of the India Office—the exact sum payable under (a) and (b) respectively to be determined by agreement between the Secretary of State and the Treasury from time to time."

Accordingly, a grant-in-aid is made by the British Treasury for the expenditure of the India Office which was fixed at £ 136,000 per year for the years 1920 to 1924.[1] Subsequently, the Secretary of State accepted a reduced sum of £ 113,500; according to the Inchcape Committee, the grant ought to be £ 122,000.

The expenditure of the India Office is of course higher than this, and the total expenditure of the India Office and the High Commissioner's Office is more than double that of the India Office alone in 1913.[2] This is explained chiefly by the fact that there are various functions, large and small, of an agency character which are still retained by the India

1. For the details by which this figure has been arrived at, see Inchcape Committee, Report, p. 145.

2. Cf. the following figures from the Inchcape Committee's Report, p. 138:—

	India Office.	High Commissioner.	Total.
	£.	£.	£.
1913	206,836	......	206,836
R. 1921	365,800	279,000	644,800
B. 1922	280,400	272,900	533,300

Office.[1] In certain cases, this has led to duplication of posts, which is both unnecessary and uneconomical in the interests of India. If the principle laid down by the Act be properly put into operation in the right spirit, the India Office would be left with all work of a political nature only, and as such its expenditure would be a charge on the British Exchequer; and the whole of the agency work would be transferred to the High Commissioner, whose work and expenditure would be under the control of the Indian Legislature.

Mission to Persia and H. M.'s establishments in China:—The Mission in Persia and H.M.'s establishments in China were under the control of the Foreign Office, and were maintained for Imperial purposes. India, alone of all the possessions of the Crown, was however, made to contribute to the charges for the diplomatic service to the Empire in Persia and China. In 1874, the India Office Auditor, in his report[2] on "the Home Accounts of the Government of India", as presented to Parliament, objected to the charge for the establishments in China, on the ground that it violated the provisions of the Act of 1858, by which the revenues of India were to be spent for the purposes of the Government of India alone. In 1899 the Welby Commission recommended that the English Government should contribute £ 50,000 for the expenses of the India Office, and that the charge on India for the diplomatic service in Persia should be reduced.[3] The effect of these recommendations was that though no contribution was made for the expenses of the India Office, the charge for the diplomatic service in China was abolished in 1901, and

1. For a detailed discussion of this question see supplementary note to the Inchcape Committee, Report, p. 146, by Sir Purshottamdas Thakordas.

2. pp. 20–21.

3. Cf. Report, paras 234 and 242.

that for the Persian Mission was reduced in the same year and finally abolished in 1905.[1]

Pensions, Indian Service Funds and Furlough:—These may be called non-effective Civil charges. The item "Indian Service Funds" though separately classified is a kind of pension charge. In the time of the Company, the servants of the Company had established several funds for their own benefit. The Company contributed to these funds. From 1868, these funds were taken over by the Government, and the charge to the Government for maintaining them is shown under the item "Indian Service Funds." By far the greater portion of the Pension charges is paid under this item.

The English officers of the Government of India are allowed furlough after stated intervals, generally about five years. The allowances paid to them during their absence from service appear under this head.

The average non-effective civil charges paid in England amounted to :—

		£.
First period ...	...	953,000
Second period ...	...	1,703,000
Third period ...	...	2,366,000
Fourth period ...	...	2,420,000

The total amount of these charges and their gradual increase are due to the policy of excluding Indians from high offices under the state, which has been discussed in the chapter on Civil Expenditure.

Besides the items already discussed the total Civil Charges in England include several other small items into the details of which we need not enter. It is sufficient to point out that the injustice of the charges for the India Office establishment and those for the diplomatic service in Persia and China has been acknowledged. The expenditure under these heads may be called a " tribute ". It has

1. Cf. P. P. 387 of sess 2. 1900.

also been shown that the expenditure on Pensions and Furlough was due to the fact that the people of the soil were deprived of their right to serve their country. It must be acknowledged that a portion of these charges was inevitable. There were in the early days of British Rule, certain high positions in Government service for which it must have been difficult to obtain qualified Indians. But in spite of this fact a more equitable policy would have certainly reduced these charges to a great extent. To this extent, therefore, these charges were a drain from India.

(5) *Military and Marine.*

The sterling charges under these heads have been analysed in the chapter on " Defence ". The helplessness of the Government of India and the Secretary of State to safeguard the interests of India against the unjust demands of the War Office and the Admiralty backed by the Treasury has been pointed out.

Besides the payments to the War Office, there were several other military charges in England, the chief of which were for the transport of troops, for furlough allowances to military officers and for military service funds.

The same remarks that apply to civil pensions and furlough allowances apply, perhaps to a greater extent and to this day, to military and naval pensions paid to the War Office and the Admiralty, to military service funds, and to furlough allowances to military officers. The employment of Indians in the higher Civil Service is at present greater than it was before; the employment of Indians in the higher Military Service is insignificant.

The transport service organised for carrying British troops from England to India and back involved a heavy charge. We have seen that the short service system considerably increased the charges for transport. The British soldier, for whose training India paid, was brought

to India at India's expense, gained military experience at India's expense, and was sent back to England at India's expense, to join the reserve forces of England. We have seen that under certain conditions, a credit was allowed to India against the cost of training for which India paid, when such soldiers returned to England. In the same way, India was entitled to some contribution for the transport of these soldiers. On the recommendation of the Welby Commission, it was resolved in 1900. that the British Treasury should pay half the cost of transport of troops, which then amounted to £130,000. Since then the transport charges have considerably increased, and the contribution of the British Treasury ought to have increased in proportion, but the same amount of £130,000 only is still paid.

We may also refer in this connection to the charges imposed on India for military operations beyond India in which Indian troops were employed. Though generally these charges appear in rupees, we have small items on account of them in sterling in some years. (e. g. in 1882.)

The average expenditure under this heading was as under in the different periods :—

		(in m. £.)	
	Military.	Marine.	Total.
First period ...	2·5	·1	2·9
Second period ...	3·3	·09	3·4
Third period ...	4·1	·2	4·2
Fourth period ...	4·5	·1	4·6

So far as there was injustice in the payments to the War Office and the Admiralty, and so long as England did not contribute her reasonable share to the transport charges, we have a kind of tribute paid by India. The charges which India was made to pay for operations beyond her frontiers were certainly a tribute, irrespective of the fact that they were paid in rupees or sterling. To the extent to which the pension and furlough charges could have been reduced by the employment of Indians

in the higher military service, we have a drain from the country.

(6 and 7) Stores and Capital Expenditure in England.

The average annual expenditure on stores charged to revenue in the different periods was as under :—

First period	1 m. £.
Second period	1·2 m. £.
Third period	1·6 m. £.
Fourth period...	2·9 m. £.

The expenditure on stores charged to revenue is classified in the accounts as belonging to civil, military and marine departments. The stores for civil departments include those for the Post Office and Telegraph departments. On a detailed examination of the figures, we find that more than half of this expenditure is due to military stores. The purchase of military stores naturally depends on the strength of the army, changes in armaments frequently made because of new scientific inventions, and military operations.

The policy by which the state undertook the construction of public works in India has been explained in the Chapter on Commercial Services. Some portion of the capital expenditure on these works is incurred in England, mainly for the purchase of stores for railways, irrigation and other works.

The magnitude of the stores purchased in England on behalf of India may be seen from the following figures which show the total value of stores of all kinds shipped to India on revenue and capital accounts during recent years :—

	Thousands of £.
1913	4,886
1914	4,292
1916	8,517
1918	11,393
1920	13,292

The expenditure on stores is the only item in "English Charges", for which it has been said that India receives a commercial equivalent.

So far as some of these Stores could not be produced in India, this expenditure was quite proper. But the policy pursued in this connection shows that it was always the practice to indent for stores of all kinds from England. That by patronising local suppliers and manufacturers, some impetus would have been given to Indian industries has been undisputed.

Rules for the purchase of stores of Indian origin were made from time to time[1]. On the one hand, the scope of these rules was greatly restricted, on the other, adequate efforts were not made to put them into practice.

The remarks of the Stores Purchase Committee, which reported in October 1920 are to the point:—"A review of the stores purchase policy of the Government of India, from the year 1862 onwards, leads to two prominent conclusions; (1) that the Government of India have not been generally successful in the efforts made by them from time to time to procure relaxations of the stores rules in respect of the encouragement of local industries and of the local purchase of imported stores; (2) that this failure has been contributed to largely by the influence of the Stores Department of, and the consulting engineers to, the India Office."

In view of the recommendations of the Stores Purchase Committee, and the interest which the Legislature takes in this connection the recent policy of the Government in the matter of the purchase of stores seems to be in the right direction, though a vigilant watch will be necessary to ensure that the intentions of the Legislature are always carried out in the right manner.

1. *Cf.* W. O. II, pp. 238-240.

To the extent to which the industries of India could have been encouraged by the purchase of stores in India, and by so doing to the extent to which the expenditure on stores purchased in England could have been reduced, we have an element of drain, with this difference that in this case we have the compensation of getting material goods in return.

Conclusion:—We have thus surveyed the main items in English Charges, and pointed out the elements of tribute or drain in each case. Counting from 1834, when the Company ceased to be a commercial body, the total of English Charges comes to 1182·5 m. £. in 81 years.[1] From the preceding survey it must have been realised that it is difficult to ascertain exactly what portion of this expenditure can be considered either "tribute or drain," but the above discussion justifies us to conclude, without exaggeration, that if it were possible to make an exact calculation, the figure would be somewhere between one-third and one-half of the total of English Charges given above, that is, between 394 m. £ and 591 m. £.[2]

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1. English Charges :—

	m. £.
1834—1856	75·7
1857—1860	28·4
1861—1874	146.6
1875—1898	357·8
1899—1913	283·4
1914—1920	167·7
1921—1924	122·9
	1182·5

2. The best defence against the criticism of the Drain is that of Sir Theodore Morison in his "Economic Transition in India." Taking the figures for the decade, 1899—1908, he discusses this question on a different method and arrives at the conclusion that the "political drain" during this decade was 8 m. £. a year.

FINANCIAL EFFECTS.

We have already referred to the unwisdom of incurring obligations in a foreign currency.[1] We now propose to consider the consequences of such a policy. On account of the English Charges, the Government of India suffered a great Loss by Exchange in the second period. In recent years also, we find that a large sum is debited to Exchange.

To understand the causes of this loss, we shall briefly review the relative position of gold and silver at this time, and the important stages in the currency history of India up to 1898.

The year 1873 has been acknowledged as the dividing line from which time a considerable fall in the gold price of silver manifested itself. Among the causes which were assigned for this event were the following[2] :—

(1) A diminished production of gold and an increased production of silver after 1873 ;

(2) An increased demand for gold for currency purposes, and a diminished demand for silver for currency purposes.[3]

But in view of the ratio which the relative production of the two metals bore to the existing stock of these metals, it was believed that the changes in demand could affect their relative price only with reference to their existing available supply. Besides it was ascertained that prior to

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1. See p. 297.
2. Gold and Silver Commission, Report, pp. 56—60.
3. Adoption of gold standard by Germany followed by Denmark, Sweden, Norway, and Holland. Cf. "The original impulse towards the monometallic gold standard, from which have sprung the existing currency difficulties, was given by England in 1816 ; it was strengthened by her suggestion, in connection with the International Monetary Conference of 1867, that France should adopt the single gold standard". Sir David Barbour in Ibid, Report, p. 134.

1873, great changes had taken place in the relative production of gold and silver, without disturbing their relative price.

The Gold and Silver Commission found the true explanation of the approximate stability of the relative price of gold and silver up to 1873, in the existence of the bimetallic system with a fixed legal ratio of 15½ to 1 between silver and gold, in countries forming the Latin Union[1]. They were of opinion that the fall in the gold price of silver after 1873 was due to a combination of causes, referred to above, which did not have their full influence till the link between gold and silver was broken by the action of the Latin Union in January 1874, when they gave up the fixed legal ratio between gold and silver and suspended the free coinage of silver.

On the question which of the causes was more responsible for the phenomenon—fall in the gold price of silver—the Commission were divided. Half the members[2] were of opinion that the divergence between the two metals was due to a greater extent to the increase in the value of gold than to other causes.

The effect of this situation was very grave on India. As we have seen India had to pay large sums of money in gold; the quantity of gold to be paid remained the same as before or increased, whereas that quantity was worth more than before. In this matter India was in the same position as any debtor in a gold-using country who had to pay his debt in gold. In other words, even if India had a gold currency, this loss could not have been avoided. The fall in gold prices in England did give some relief to India so far as the purchase of stores was concerned. But as we have seen the expenditure on stores, though of sufficient importance in itself, was small compared with the rest of

1. France, Belgium, Italy, Switzerland.

2. They included Sir David Barbour and Sir Louis Mallet, who were intimately conversant with Indian affairs.

the "English Charges", for which no commercial equivalent was received.

But the difficulties of India were due to another cause. Gold was not legal tender in India; the standard of currency was the silver rupee. The Government of India received their taxes in rupees and were required to convert a large portion of those rupees into gold for payments in England. Any fall in the gold price of silver compelled the Government of India to find more rupees for the "English Charges" which did not diminish, but went on increasing at this time. From year to year this situation became more and more serious forcing the Government to increase taxation. The other difficulty connected with this was the uncertainty in all financial calculations and arrangements, because the gold price of silver was fluctuating, and the number of rupees required for "English Charges" as estimated in the Budget, differed widely from the number actually spent at the end of the year.

Before entering into the details of the extent to which India suffered from these difficulties, we shall see how she came to be a silver-using country, and why when the evils were perceived in 1873, it took so long as 1893—1898 to apply the remedy.

Before 1806, gold and silver were both legal tender in India. In that year, the Court of Directors accepted Lord Liverpool's principle that "the money or coin which is to be the principal measure of property ought to be of one metal only," and they believed that such a coin for India must be of silver.[1] Accordingly, the silver standard was introduced in India, though gold coins were allowed to circulate not at a fixed legal ratio, but at the market ratio. The use of gold for currency purposes was naturally discouraged and the policy was confirmed by the Act of 1835, when gold ceased to be a legal tender in India.

1. *Cf.* The famous despatch of 1806, published in P. P. 127 of 1898.

From 1861 to 1874, repeated and strenuous efforts were made to introduce gold currency in India. All the Finance Members during this period were in favour of such an action.[1]

The period 1874 to 1893 was one of great anxiety and embarrassment to the Government of India. In 1878 they made one more effort to introduce gold in India; the English Treasury interfered and the proposals of the Government of India were negatived.[2] Having failed in this attempt, the Government of India then turned to the other remedy which they thought could save them from this critical situation, namely, international bimetallism.

The International Monetary Conference of 1881 failed, as in 1878, to fix a ratio between gold and silver for the purposes of bimetallism, chiefly on account of the opposition of England. But the advocates of bimetallism had not yet lost their hopes. In 1888, half the members of the Gold and Silver Commission reported in favour of international bimetallism as the only remedy against the evils arising from the changes in the relative value of gold and silver, and as the only remedy which would protect England. and all other countries including India against future risks.[3]

Another international Conference met at Brussels in 1892; once again England did not show any inclination to change her monometallic gold standard and once again the Conference failed to achieve the desired result.

It was after this hopeless struggle, when the Government of India found that they had allowed themselves to fall deeper and deeper into the "yawning gulf"[4] of their sterling payments in the hope of an international agreement, which was not to be, because England did not believe in the merits of bimetallism, that the Herschell Committee

1. *Cf* Shirras, p. 104.
2. *Ibid*, pp. 123-124.
3. Report, p. 104.
4. F. S. 1894.

on Indian Currency was appointed, and as a result of their recommendations, the Indian mints were closed to the free coinage of silver in 1893, and the gold standard was adopted, the value of the rupee being fixed at 1 sh. 4 d. Exchange gradually came up to this level in 1898, and the Fowler Committee reported in 1899 in favour of a gold standard with an active gold currency.

With subsequent events which led to the establishment of the Gold Exchange Standard without an active circulation of gold, we are not concerned. We are also not concerned with the question whether the measures of 1893 to 1898 were wise. We have simply to note that in 1898 the Government of India believed that they were relieved from the loss due to exchange, and still more, from the difficulties due to the fluctuations in exchange. The relief was however only to the Finance Department of the Government of India, not to the people at large. The people were required to pay their taxes, which by 1898 had been considerably increased, in an artificially appreciated currency. The closing of the mints had artificially restricted the supply of rupees in the country and the value of the rupee was thus raised. The rupee which the taxpayer paid in 1898 and after, took more from his pockets than the rupee which he paid in 1893. The Indian farmer found that his commodities fetched him a lower silver price, whereas his taxes remained at the same high level.[1]

From this review, we see the responsibility of England in introducing the silver standard in India. According to Sir David Barbour, it was England who first set the example, and then encouraged the adoption of the gold standard by the leading countries of Europe. We have also seen that England could not help India out of the exchange difficulty by an international agreement, because such an agreement was supposed to be against her interests. The gold obligations of the Government of India

1. *Cf.* W. C. Report, p. 176.

which created the difficulty were increased with the knowledge and approval of the English Government, and were largely due to the political connection between the two countries ;[1] and we have seen that about half of these payments were in the nature of a tribute or drain.

The people of India are too poor to make these heavy payments to England, the injustice of some of which has been already shown. The burden of these payments and their injustice were aggravated during the second period, by causes for which England was in some degree responsible. But the interests of England were too strong to mind the difficulties of her poor and voiceless dependency. From year to year, the Finance Member and the Indian taxpayer groaned under the pressure of these increasing burdens. From time to time, the Government of India suggested and begged for remedies, only to receive a rebuff from the English Treasury, which was neither willing to allow gold to go to India nor to enter into an international agreement for the sake of India. This is the reason why India suffered from financial confusion for 20 years before a doubtful remedy could be found for her difficulties. Into the extent and nature of this confusion we shall now proceed.

Loss by Exchange.

As the exchange value of the rupee fell, the Government required more rupees to pay for their sterling charges in England. The difference between the actual number of rupees paid by the Government in any particular year, and the number of rupees which would have been required if the exchange value of the rupee had remained at the conventional rate of 2sh. was considered to be the loss by exchange to the Government of India.

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1. *Cf.* Barbour, in Gold and Silver Commission, report, p 134.

The method adopted to show this loss in the accounts has been already explained.[1] We have given a table in the appendix showing this loss from 1872 to 1898. These figures of the great rise in the charge for exchange show the extent to which the Government of India were required to provide for more money from year to year to meet their sterling liabilities. Besides this, there were a few other items which we must consider in order to arrive at the total burden on the Indian taxpayer on account of the fall in the value of the rupee in the second period.

There are large remittance transactions between the Secretary of State and the Government of India partly on their own account, and partly on account of the Railway companies. In some years, during this period, these transactions proved a loss, in others a gain.

The pay of the English soldier in India was fixed by the War Office in sterling and he was to be paid in India at a rate fixed by the Treasury, which was invariably much higher than the current rate. This gave the English soldier an undeserved benefit at the cost of the Indian Treasury, when that Treasury was hardly able to meet the many unexpected demands that were made upon it. The total expenditure on this account from 1883 to 1898 was nearly 10 crores of rupees.

The European officers of the Government in India remitted a part of their earnings to England for their families or for other personal requirements. Their salaries were fixed in rupees, and on account of the fall in the value of the rupee, they could send only a smaller amount in sterling. This was represented as a great hardship, and the Government of India, who were themselves the greatest sufferers in the matter, were pressed for relief. This resulted in what is known as an " Exchange Compensation Allowance " to European and Eurasian officers not domiciled in India from April 1893. The question whether

1. See p. 91.

when the Government of India had to suspend the Famine Grant, had to ask for contributions from Provincial Governments, and had to fight their battles with the English Government for the imposition of Customs and Cotton Duties—whether at this time they were justified in granting additional allowances to those officers of the state, whose salaries were already fixed on a very high scale, was hotly debated at the time, and the action of the Government was severely criticised in the Legislative Council and elsewhere.[1] It was also pointed out that the fall in prices in England at the time had already given these officers some compensation against their loss.

But apart from this question, the way in which the allowance was granted was open to serious objection. It was so arranged that each officer could send one half of his salary, subject to a maximum of £ 1,000 a year, at a favourable rate of exchange which was fixed at 1sh. 6d. The allowance took the form of an addition to the salary, which was the difference between one-half salary converted at 1sh. 6d. and one-half salary converted at the average market rate. The privilege, even if justifiable, ought to have been confined to actual remitters upto a certain amount, in which case the additional charge to the Indian Treasury would have been less. Moreover, the Eurasian officers who also enjoyed this privilege had as a rule no English domicile and had in consequence nothing to remit to England. The total expenditure on this account from 1893 to 1898 was more than 5 crores. It may be noted here thet before 1893, the English officers of the Government were allowed to make "family remittances" to England through the Government at favourable rates of exchange. The loss due to this was not separately shown.[2]

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1. F. S. 1894, Proceedings.
2. F. S. 1893, pp. 25-26.

Adding all these charges together we get the total burden on the Indian Treasury due to the fall in the value of the rupee. The highest figure in any one year was 15 crores in 1894. The total from 1875 to 1898 was 154 crores or an average of 6·4 crores a year. This shows the extent to which the Government of India were either forced to economise or increase taxation during this period on account of the falling value of the rupee.

The Government of India also suffered some loss on their capital expenditure in England for Productive Public Works in India. The amount of this loss was 8 crores. Adding this to the loss on revenue we have 162 crores as the total loss by Exchange, in the second period.

Besides this increasing loss due to Exchange, the other great difficulty from which the Government suffered during this period was the uncertainty in all their financial calculations and arrangements, on account of the fluctuations in the exchange value of the rupee. The Finance Member was never sure that the loss by exchange that he estimated at the time of presenting the budget for any year, would be approximately the same, or would be considerably increased or diminished at the end of the year. Sir David Barbour calculated that the additional burden imposed on the finances of India by the fall in exchange from 1sh. 6d. to 1sh. 5d. would be more than a crore of rupees[1]. We see from the table in the appendix

1. F. S. 1886. Cf. also F. S. 1887 p. 40.—"Taking the sum of the items given in paragraphs 9 and 10, it will be seen that the additional burden imposed on the finances of India by the fall in exchange from 1sh. 6d. to 1sh. 5d. in the present day amounts to 1,11,00,783 rupees. If the gold price of stores should not fall, as assumed in the above calculation, a further sum of 13,72,004 rupees would have to be added to the loss by exchange. It may be mentioned that no account has been taken of any possible loss, from a fall in exchange, on the purchase of stores used on Railway Capital Account.

"A further fall in exchange from 1sh. 5d. to 1sh. 4d. per rupee would more than double the loss, as the loss due to a fall from 1sh. 5d. to 1sh. 4d. is about one-eighth more than the loss due to a fall from 1sh. 6d. to 1sh. 5d."—Barbour.

that the difference between the rate assumed in the budget, and the average rate actually realised was often large enough to upset the calculations of the Finance Member. This uncertainty was frequently complained of and led to great embarrassment. Among the frequent remarks made in this connection the following may be quoted as typical[1] :—"In other words, our financial position for the coming year (1893) is at the mercy of Exchange and of those who have it in their power to affect in any way the price of silver. If we budget for the present deficit of Rx. 1,595,100 and exchange rises one penny we shall have a surplus ; if it falls a penny we shall have a deficit of more than three crores ; if we impose taxation to the extent of one and a half crores of rupees, a turn of the wheel may require us to impose further taxation of not less magnitude ; another turn and we may find that no taxation at all was required."

It is no wonder, therefore, that we find Exchange, and the loss and uncertainty due to it, write large in the pages of the Financial Statements of this period. No one can fail to realise the many difficulties of the Government of India at this time on account of this cause. But on a deeper study of the question we find that the importance of the evil was exaggerated, that the Government wrongly attributed the losses due to Exchange as entirely beyond their control, and that there were other causes of additional expenditure during this period for which the Government of India were responsible, but which were explained away as due to exchange and exchange alone.[2]

1. Cf. F. S. 1893, p. 15. Cf. also F. S. 1886 p. 12.—"The uncertainty in respect of silver entirely neutralises the most carefully formed forecasts of the future, and renders the task of budget-making in India almost illusory. The surplus or the equilibrium existing at the hour at which this statement is written may be turned into deficit before it sees light ; and nothing that the Government of India can do of its own authority will, in the slightest degree, affect the result."

2. Cf. F. S. 1894, pp. 145-146.

The method by which the loss by Exchange was counted on the basis of a conventional rate of 2 sh. the rupee, put the loss at a higher figure than it actually was. For many years before 1875, the Secretary of State had not realised this rate. The rate was very near 2 sh. in the first period, and the practice before 1875 was to convert the sterling transactions of the Government at this rate, and to account for the loss or gain due to a change in the rate under a separate item "Exchange". When however, the divergence between this conventional rate and the actual rate became more and more marked after 1872, it was wrong to count the loss by Exchange on the basis of that conventional rate. We know that large sterling obligations were incurred after the gold value of silver had fallen to an appreciable degree. The basis for counting the loss by Exchange on these new sterling obligations ought to have been the rate of exchange which was current when these obligations had been incurred, and we know that that basis would have been much less than the conventional rate of 2sh.[1] A calculation of this nature would be extremely complicated. An attempt was made by the India Office to divide the sterling obligations into "old and fixed contracts" and "new and current contracts", and to ascertain separately the loss by Exchange under these headings, for the Gold and Silver Commission and the Herschell Committee. A reference to these figures leads us to conclude that the loss by Exchange as ordinarily shown by the Government in their annual account was exaggerated.[2]

1. Cf. Barbour, F. S. 1887, p. 38 and also P. P. 449 of 1893, pp. 14-15.

2. Cf. Gold and Silver Commission, apppendix pp, 335-337, and Herschell Committee, appendix, pp. 267-270. It is not intended to convey that the actual classification as given by the India Office to these bodies is correct. Even taking their classification we find that the system of calculating the loss by Exchange was wrong. If a strictly accurate classification were made, the true extent to which the loss by Exchange was exaggerated could be known.

The argument that the losses due to Exchange were beyond the control of the Government is also unsound. During the long period when the rupee was falling the Government knew that any addition to their sterling expenditure was a source of danger and difficulty.[1] On this ground alone, the Government ought to have made efforts to reduce their existing sterling obligations, instead of increasing them. If in spite of being fully aware of this situation the Government adopted a policy by which they increased their sterling obligations, they could not, with any show of reason, say that the losses by Exchange were beyond their control. In the preceding chapters of this Part, it has been shown how in spite of this knowledge the Government went on increasing their liabilities in England. The total English Charges which were 12·8 m. £. in 1875 increased to 16·3 m. £ in 1898. If we want to ascertain the loss by Exchange for which the Government could have with some justice said that it was beyond their control, we should find the difference between the cost of remitting 12·8 m. £ in 1898 and in 1875. Working on this principle, the loss by Exchange in 1898 should be reduced by 1·4 crores; in 1895 when the loss was largest it should be reduced by 1·9 crores.[2]

At the same time the two other items in the loss by Exchange—the additional pay to the British soldier, and the Exchange Compensation Allowance cannot be said to have been beyond the control of the Government. As we have seen the latter was deliberately adopted and in such a way that it involved a greater charge than it ought to have, even if the justice of the charge be admitted. And if the Government of India were prepared in times of extreme difficulty to give relief to their European officers, they ought to have been equally prepared to take away any

1. Cf. Barbour's Note in Gold and Silver Commission, paras 13 and 14.

2. Cf. W. C. Minority Report, paras 67-73.

undeserved benefit to such officers or servants. Even if the principle of the Exchange Compensation Allowance be applied to the British soldiers, there was no reason why they should have been paid their whole salary at a rate higher than the current rate. Besides, in both these cases, the real causes of the evil—the exclusion of Indians from high offices and the subordination to the War Office, were lost sight of.

We thus see that (1) the loss due to exchange was exaggerated, and (2) was not entirely beyond the control of the Government of India. (3) The causes of additional sterling expenditure in this period have been explained in their proper places, from which it is evident that the Government of India were not right in attributing all their misfortunes to Exchange.

Gain or Loss by Exchange in recent years.

This has been already discussed in the chapter on Indian Financial Statistics,[1] where the nature of the confusion caused in Indian Finance by recent fluctuations in the value of the rupee, and the unsteady and artificial character of the treatment given to this item of gain or loss by exchange has been explained. The following table which gives the amount of English Charges, the exchange rate adopted in the accounts, and in the Budget in some cases, as well as the actual average exchange rate will reveal the nature of the confusion referred to above:—

Year.	English charges. m. £.	Exchange rate. Accounts.	Budget.	Actual.
1914	20·2	1 s. 4 d.	...	1 s.—4·004 d.
1915	20·1	do.	...	1 s.—4.087 d.
1916	21·1	do.	...	1 s.—4·148 d.
1917	26·0	do.	...	1 s.—4·536 d.
1918	23 6	do	...	1 s.—5·544 d.
1919	25·5	2 s. 0 d.	1 s. 4 d.	1 s.—9·691 d.
1920	30·9	do.	2 s. 6 d.	1 s.—8·901 d.
1921	30·5	do.	1 s. 8 d.	1 s.—3.79 d.
1922	30·6	do.	1 s. 4 d.	1 s.—4·522 d.
1923	31·0	do.	1 s. 4 d.	1 s.—4·5 d.
1924	30·8	do.	1 s. $4\frac{3}{4}$ d.	......

1. See p. 91 onwards.

The unsteady and artificial way[1] in which the item gain or loss by exchange has been shown in the accounts in recent years may be seen from the following table, from which we notice the great difference in the figures for any one year, as shown in the Budget Estimates, the Revised Estimates and the Accounts. We also notice that in recent years, the more intelligible method of distributing the loss by exchange over all items has been adopted. The large totals of exchange loss, however, show the extent to which an element of artificiality is introduced into the accounts, on account of the great divergence between the account rate of exchange which is still 2s. and the actual rate which is about 1s. 4d.

Gain or Loss by Exchange as credited or debited to revenue in lakhs of rupees.

		Budget Estimates.	Revised Estimates.	Accounts.		
1917	...	...	1,50	4,72		
1918	...	...	6,60	7,25		
1919	...	1,60	...	...		
1920	...	6,00	—2,64	—3,23		
1921	...	—3,28	—8,50	...	—13,64	Distributed
1922	...	—9,96	—50	...	—15,09	over all
1923	...	...	...	...	—11,99	heads. Net
1924	...	...	...	...	—12,17	Total.

1. See page 92.

PART III—SOURCES OF REVENUE.

CHAPTER XII.

DIRECT TAXES:—(*A*) LAND REVENUE AND PROVINCIAL RATES.

Early History.

In the consideration of the social, economic or political problems of India, the question of Land Revenue is very important. In a country where an overwhelmingly large proportion of the population depends directly or indirectly for its subsistence on the Land, this situation is inevitable. It is no wonder therefore that volumes have been written and can still be written on this subject.

It is beyond the scope of this work to deal with the many important and interesting questions connected with the Land in India. "Land Revenue" in this work occupies the place of a mere chapter in the general discussion of Indian Finance. We have therefore necessarily to confine ourselves to moderate limits in approaching this subject. We shall try to discuss mainly the broad features of the fiscal problems connected with the Land in India, though from the nature of the case, some reference to other aspects of the question cannot be avoided.

In the early history of all countries, we find that land was in some cases the only, in others the principal source of revenue. In modern times other forms of taxation have been developed, but Land is still an object of taxation in one form or another. This is true in the case of India, with this difference that till recently the state in India derived a larger percentage of its revenue from Land than from any other source, and even now Land is still one of the main pillars of Indian revenue.

The exact nature and burden of the Land Tax in India has differed from time to time to some extent. This difference has been mainly caused by changes in the Ruling Power. The ancient Hindu authorities acknowlege private property in Land ; the share which the state could take from the landowner was limited to one-sixth of the produce,[1] though it could be increased in times of emergency. The early Hindu Kings generally adhered to this rule. During the time of Mahommedan rule, some changes were introduced. The Mahommedan law books[2] also accept private property in Land. When an individual Mahommedan ruler was a religious fanatic, we no doubt find that the share taken from the produce of the Land was higher than before. We may also find that the Mahommedan rule of regulating the land tax "by the ability of the cultivator to pay" was not always exercised in the interest of the cultivator. But it has been acknowledged that in the best days of Mughal rule "moderation and control over collecting officers were duly observed."[3] Akbar's settlement was made on the basis that the share of the Government was one-third of the produce.[4] With the decline of the Mughal power, there came into existence different rulers in different parts of India, with more or less extravagant claims. In the general confusion which prevailed in the 18th century,[5] no ruler in India was safe in his position, and everyone was in want of resources to fight his wars with the rest. In this period, therefore, cases of oppression and excessive demands on the land were more frequent, and one of the ways in which the ruler justified his claims was by assuming in some cases the right of ownership in all land within his kingdom. The formal assumption of this right was rare, but the demands on the land by successive conquerors were so heavy that the possession of land

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1. B. P. I, pp. 227 and 265. 2. Ibid. p. 229.
3. Ibid. p. 268. 4. Ibid. p. 275.
5. From the latter part of Aurangzeb's rule (1700) to the final overthrow of the Maratha Power. (1818).

became a burden, and it was not in the interest of the people in some places to assert private rights in the land.[1] Though this is true of a period of confusion and unsettled government, as late as 1715, we find a recognition of private rights in Land, by the Mughal authorities.[2]

Land Revenue—a tax or rent.

The confusion of the 18th century ended with the supremacy of British Power in India. The British authorities argued that in strict right, they succeeded to the position of the outgoing ruler in the territories that came under their power.[3] As we have seen above, these outgoing rulers had a precarious existence and their exactions from the land were in some cases unduly heavy. Instead of trying to remove the injustice and oppression caused by the excessive demands of their immediate predecessors, the British found it convenient to claim the same unjust rights on the ground of precedent. It was "the chronic emptiness of his treasury,"[4] that had compelled the ruler of the 18th century to increase his demands on the land; the treasury of the East India Company was in no better situation when they found themselves masters of vast kingdoms. Besides, the business instincts of the officers of the Company had not disappeared with the acquisition of territorial power. In the existence of the unjust demands on the land of some of their predecessors, they found sufficient justification for the application of their English theories of rent. In their eyes the claims of the native rulers, whom they had displaced, resembled the claims of the English landlord upon his tenants. They believed, therefore, that the state (in this case, the Company) was the universal landlord in India, and all those who cultivated or held land did so as

1. Ibid. pp. 230 and 233.
2. Ibid. pp. 230 and 231.
3. Ibid. p. 234.
4. Ibid. p. 233.

the tenants of the state. The English tenant was entitled to his wages and subsistence, all that was known as "rent" belonged to the landlord. Similarly, in the case of all land in India, the state, as the landlord, was entitled to all the "rent" from land. From these ideas it was an easy transition to believe that the income derived by the native rulers from the land coincided with what was known as "rent" in England, and that the English were perfectly justified if they set about to determine the amount of this "rent" in India, and to demand it from the landholders or cultivators, as properly belonging to the state.

This mistaken notion has done more than anything else to retard the prosperity of the Indian farmer. This idea that the state claim on the land is "rent", was openly proclaimed in the early days in Government regulations and by responsible officers;[1] and though in after years this idea was not openly declared, in practice the policy of the Government in relation to the Land is still affected by this idea. The consequence has been that the state demand on the land has been increased from time to time, irrespective of the capacity of the agriculturist to pay, often leaving him just enough for bare subsistence.

A few illustrations of the existence of this conception will make the above remarks more clear. Baden-Powell[2] quotes James Grant, Elphinstone and Mallison to show that they held these views. He also shows that the preamble to the Madras Regulation of 1802, declared that property in land belonged to the Government by "ancient usage". When we come to the history of the early settlements, first in Bengal and then in other provinces, we shall see how this idea affected the claims of the Government on the land. In 1860 Mr. Wilson spoke of the revenue from Land as "rent" and did not include it in calculating the

1. Ibid. pp. 231 and 232.

2. Ibid. p. 231.

burden of taxation on the people.[1] This caused a double mischief. On the one hand it was believed that the Government demand on the land being "rent" could be increased without being burdensome to the people;[2] on the other the amount of taxation was considered to be very small, because Land revenue was not a tax, and therefore it was right to increase such taxes as the Salt duty or to impose new taxes.

The mischief that was caused by these doctrines did not escape notice. In 1875, Sir Louis Mallet, under-Secretary of State for India, recorded his famous minutes on the Land revenue problem. The following extract summarises his views[3] :—

"It is, I think, impossible to deny that there is some danger in this direction, and it cannot, I believe, be safely met by temporising, and by leaving to the enemy so formidable a weapon as the theory of State Landlordism. Nearly all modern Anglo-Indians so far as I have seen or heard—the whole generation of English public men and economists trained by Mill and Manchester for the sake of a free trade tariff—would in this country warmly support in principle the largest possible appropriation of the rent of the land. What degree of support their policy would now obtain, or may hereafter obtain in India, I cannot pretend to say, but Indian opinion does not always go for much, and much is in the power of an all-embracing and powerful bureaucracy, with the press in its hands, and with a Government at its back, which may be any day at its wit's end for money, and which can hardly undertake an object on which it has set its heart, without a cess on the land.

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1. F. S. 1860.

2. Cf. Fawcett, Manual of Political Economy—"The Government in India exercises over a great portion of the soil the same rights of property as those which an English landlord exercises over his own estate. The Government in India takes the place of individual landlords, and the cultivators of the soil rent their land from the Government instead of from private landlords. ....Hence a land tax is no harder upon the cultivator; nor does this impost cause any loss to the rest of the community".

3. F. C. 1880. Appendix, 1. p. 142.

"From this point of view, the policy of further taxing the land might easily become a political danger, and the large margin on which, under the rent theory, the state has a right, if it be not a duty, to encroach, lends itself too easily to such an extension.

"In an economical point of view, I regard such a policy as especially mischievous.

"The function of rent is to restrain the undue pressure of population on the soil. The presence of rent is the result of the demand for land pressing on the supply. To take the rent and divide it among the whole population, which is done when it is substituted for taxes, is to counteract and neutralise the operation of the law of supply and demand, by stimulating the demand anew without increasing the supply and tends directly to a progressive pauperisation of the community.

"For these reasons, without disturbing past settlements, which we cannot afford to do, and cannot now do without gratuitous fiscal sacrifices, I shall rejoice to see a limit placed on future assessments with a view to which the renunciation of the theory of state landlordism would be the most effectual step".

Lord Salisbury in reviewing the problem agreed with Sir Louis Mallet. He was aware of the evils which would follow from a want of proper definition of the nature of the state claim on the land. He said [1]:—

"Now it is our function to address Indian officials, and speaking of the generation now coming into office—their vocabulary is derived with more or less fidelity from the writings of political economists. They have been required to study the science closely before they could undertake our service, and their minds were fresh from a close application to it when, for the first time, they came into contact with Indian life, and were trusted with a share of Indian Government. To the modern Indian statesman the refined distinctions of the economical school are solid living reality, from which he can as little separate his thoughts as from his mother tongue. To us it may seem indifferent whether we call a payment revenue or rent, so we get the money, but it is not indifferent by what name we call it in his hearing. If we say that it is rent, he will hold the Government in strictness entitled to all that remains after wages and profits have been paid, and he will do what he can

1. F. O. 1880. Appendix. 1. p. 144.

to hasten the advent of the day when the state shall no longer be kept by any weak compromises from the enjoyment of its undoubted rights. If we persuade him that it is revenue, he will note the vast disproportion of its incidence compared to that of other taxes, and his efforts will tend to remedy the inequality and to lay upon other classes and interests a more equitable share of the fiscal burden.

"I perfer the latter tendency to the former. So far as it is possible to change the Indian fiscal system, it is desirable that the cultivator should pay a smaller proportion of the whole national charge. It is not in itself a thrifty policy to draw the mass of revenue from the rural districts, where capital is scarce, sparing the towns, where it is often redundant and runs to waste in luxury. The injury is exaggerated in the case of India, where so much of the revenue is exported without a direct equivalent. As India must be bled, the lancet should be directed to the parts where the blood is congested, or at least sufficient, not to those which are already feeble from the want of it.

"I agree therefore, with Sir Louis Mallet in desiring that our present nondescript land dues should tend to the form of revenue rather than that of rent."

But in spite of this Lord Salisbury was not prepared to take any definite action in the matter. In his opinion such an action would reduce the revenue from land, whereas the expenses of the Indian Government were increasing every year. At the same time it was not wise, he thought, to try to bind his successors to a new policy. The conclusion at which he arrived was this :—" We must be content to contribute our mite towards a gradual change. We can favour as we have opportunity, leniency and regularity of assessment ; we can discourage attempts to take advantage of inflated prices ; we can avoid and disavow language belonging to the rent theory."

This was written in 1875 ; in 1880 the Famine Commission calculated the incidence of taxation in India, and in doing so excluded Land revenue. In justifying this procedure, they used the following language[1]. " The land

1. Report, p. 90.

revenue is a source of income which in India must be distinguished from taxation properly so called, as, by immemorial and unquestioned prescription, the Government is entitled to receive from the occupier of the land whatever portion it required of the surplus profit left after defraying the expenses of cultivation. The land revenue may therefore with more propriety be regarded as a rent paid by a tenant, often a highly-favoured tenant, to the paramount owner than as a tax paid by the owner to the State". Mr. Sullivan, one of the members of the Commission recorded a note of dissent, in which he proved that the state had no proprietory right in the Land and that the Land revenue was a tax.

The practice of the Famine Commission of 1880 of excluding Land revenue from the category of "Taxation" is followed till to-day by the Government. An annual return of the net income and expenditure of British India is presented to Parliament. In this return, Land revenue is grouped together with Forests and Tributes. The second group contains only Opium. The third group is headed "Taxation" and includes seven items—Salt, Stamps, Excise, Provincial Rates, Customs, Assessed Taxes and Registration. This misleading way of presenting the accounts of British India to the world is characteristic of the tendency of the Government to consider Land revenue not as a tax, but as "rent". The fallacy is continued in the most recent official literature. In the annual report of the moral and material progress of India for the year 1921-22 (called "India in 1921-22"), Mr. Rushbrook Williams observes,[1] "we must note that a large proportion of the revenues of the Government of India is derived *not from* taxation, but from such sources as *land revenue*, opium, railways, forests and irrigation."

The criticisms which were levelled against the Land revenue policy of the Government in the end of the last

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1. p. 119.

century showed how over-assessment had been the result of this fallacy of treating Land revenue as "rent" in practice, though by that time the rent theory had received its final blow at the hands of Baden-Powell, who defined Land revenue as a tax on agricultural incomes.[1]

In Lord Curzon's resolution of 1902, to which we shall refer later, this point was ignored. But as said above, the Government has not entirely given up the rent theory in practice. The land revenue demand of the Government is not governed by any law; it is not subject to the control of the Legislature. It is entirely left to the discretion of the Executive. The courts in India cannot take cognisance of an appeal against the assessment made by the Settlement Officer. Besides, the land is supposed to be hypothecated as security for the land revenue. "The revenue is, in fact, an absolute first charge on all land, and must be satisfied before any other claim, and the land can be sold, by the Bengal law, at once, and by other laws in the last resort, to recover arrears."[2]

It is no wonder then, if Mr. Lionel Curtis, who had exceptional opportunities of knowing the views of the Indian bureaucracy, remarks that,[3] "while persistently handling the reveuues as a rent, government has drifted into thinking of them as a tax on tillage". The elements of the rent conception which he has seen in practice lead or mislead him to define Land revenue as follows in opposition to Baden-Powell. "The revenues from land", he says, "may be described as a rent which government has drifted into treating as a tax on agriculture."[4] Certainly, it is not wrong to presume that Mr. Curtis faithfully reflects the views and practice of Anglo-Indian officials, and the

1. Volume 1. p. 240.
2. Ibid p. 239.
3. Dyarchy, p. 264.
4. Ibid, p. 263.

statement made above that the rent theory is still acted upon is borne out by these observations.

But Mr. Curtis goes further than this. He asserts that the " true economic rent " or the " unearned increment " from land belongs to the state and complains that the Government fail in their duty to the community by not taking the whole of this " rent " from the cultivator; and he regrets that Henry George did not live a century earlier to influence the history of revenue systems in India. The conclusion of Mr. Curtis on this point is as follows [1]:—" If throughout India the land were revalued periodically, if the true rent was ascertained, and if that amount, subject only to a fair commission paid to intermediary collectors, accrued to the community at large, the ideals of Henry George would be nearer to realisation in this ancient country even than in newer communities, to which they are prima facie more eaisly applicable. It might even have proved that the whole public cost of an administration so economical as that of India might have been met from the growing value of rent without resort to taxation in the true sense of the word ".

The single-tax doctrine of Henry George and his followers has been thus stated by Prof. Seligman [2]:—

" Land is the creation of God; it is not the result of any man's labour; no one, therefore, has a right to own land. Increase in the value of land is due mainly to the growth of the community; like the land itself, it is not the result of any individual effort; it is an unearned increment which properly belongs to society. Moreover private property in land is undoubtedly the cause of all social evils. It therefore becomes the duty of the government to take what rightfully belongs to the whole community. Everyone may still retain the result of his own labour; but the value of the bare land, the economic rent, must be taken for the state. In this way, and in this way alone, can the social problem be solved ".

1. Ibid. pp. 245. & 246.

2. Essays in Taxation, pp. 68 and 69.

We need not enter into a discussion of this theory. It is sufficient to say that it has not been accepted in any country, and that it has been rejected by economists. The many defects of this theory may be stated in the words of Prof. Seligman[1] :—

"We have seen that the single tax is defective fiscally, politically, morally and economically. We have learned, first that it would be inelastic, and that it would intensify the inequalities resulting from unjust assessments; secondly, that although itself proposed chiefly from social considerations it would prevent the government from utilising the taxing power for other social purposes, and that it would divorce the interests of the people from those of the government; thirdly, that it would offend against the canons of universality and equality of taxation, and that it would seriously exaggerate the difference between profits from land and profits from other sources; and finally, that it would be entirely inadequate in poor communities, that it would generally have an injurious influence on the farmer, and that even in the large urban centres it would exempt large sections of the population without bringing any substantial relief to the poorer classes."

It is well known that excessive taxation on any industry discourages any improvement in that industry. The impetus to sink more capital or to employ more labour or to make other improvements in an industry disappears as soon as it is known that a large percentage of the profits of those improvements are to be taken away by the state. In India with the growth of population and with the disappearance of village industries, the pressure on the land has increased. The "progressive ruralisation" of India is an economic fact proclaimed by Ranade more than a generation ago. More and poor land has been brought under cultivation by the force of circumstances. But on the whole, people have refrained from making any conscious effort to introduce improvements in the land,[2] because they

1. Ibid p. 96.

2. A theoretical allowance is now made for private improvements in assessing the land, but as we shall see later, there is no guarantee in this matter.

know that the fruits of those improvements will not be theirs.

The arguments employed against the continuance of the Excess Profits Duty in England apply with much greater force to the land revenue in India. The former was a temporary war measure; the latter is a permanent feature in the Indian Revenue system. In assessing the former the normal or pre-war profits of an industry were first deducted. The latter is assessed on the whole rental or on the whole net produce of the land, that is, the estimated gross produce less the estimated cost of cultivation. In both, in theory it is a part of the "unearned increment" that the state tries to take. 50 per cent of the "net produce" or "not assets" is taken as Land revenue in India. This is obviously more to the taxpayer than the 60 per cent of the Excess Profits taken in England. It has been acknowledged that the Excess Profits Duty discourages industry and it has therefore been abolished. The Land revenue in India at its present rate discourages agricultural industry to a greater extent than the Excess Profits Duty discouraged the industries of England.

From the above discussion we see that the idea that Land revenue is a rent and not a tax is still acted upon in India to some extent. As we shall see later in grater detail, this has led to over-assessment, and this is one of the causes of the poverty of the Indian farmer. It is undeniable that had the effect of this idea not been moderated by "the alternating influence of the counter current of opinion and policy in favour of private rights",[1] the situation of the Indian farmer would have been far worse than it is to-day. It need not be further argued that any application of the doctrines which Mr. Curtis advocates would have brought untold miseries on India.

Elasticity of Land Revenue:—Before we proceed to review the history of the present Land Systems in India,

1. Sir Louis Mallet, F. C. 1880, appendix 1. p. 135.

we must refer to one feature of the old Indian systems, which has not yet been noticed. The old Indian demand on the land was elastic. It was a certain share in the produce to be paid in kind. The amount to be paid thus varied with the season. It is true that both in theory and practice the share of the state could be increased in an emergency. It is also true that during the confusion of the 18th century some rulers took an excessive amount, as explained above. But this cannot be taken as a standard or precedent to be followed for ever. Though in this way, the share was fixed, the revenue was an increasing quantity.[1] The value of the state share might rise, and as more and more land was brought under cultivation, the total of the king's share increased.

In course of time however, payment in cash was substituted for payment in kind. Akbar's settlement was made on this principle and money rates were substituted for the grain share on a consideration of the prices of 19 years preceding the settlement.[2] This was a matter of convenience, there was no intention to increase the burden of the cultivator. It is natural, therefore, to see that if prices rose, the state would be justified in increasing its cash demand. If after the share of the state had been fixed at a reasonable amount, the principle of adjusting the revenue with reference to the state of prices at certain intervals be accepted, the interests of all concerned would be safeguarded. On the one hand the state revenue could be increased under certain conditions; on the other the cultivator would know the limit of the state demand.

Conclusions :—From the above discussion we arrive at the following conclusions. In the first instance, the principle that Land revenue is a tax on agricultural incomes and not a rent ought to be accepted in practice. The state demand ought to be regulated by statute and not by executive

1. B. P. 1. p. 278.
2. Ibid. p. 276.

discretion. This would remove the present uncertainty, and would provide safeguards for the taxpayer against the mistakes or oppression of executive authority. In normal times, the share of the state ought to be fixed at a moderate percentage of the produce, net or gross, as it may be thought convenient, which would leave enough margin to the landholder to save, and which would encourage him in introducing improvements on his land. In order to adjust the money value of his share with changing prices, a periodical revision of the assessment would be necessary. It would naturally follow that those petty landholders who contribute a trifle to the state revenues and yet who suffer from that contribution ought to be exempted. The capacity of the landholder to pay ought to be the principal basis of all legislation in this matter; and in course of time the principle of progressive taxation may also be applied to those large landlords whose profits exceed a certain large limit. The rights of tenants ought to be protected by suitable legislation.

In the following brief review of the history of Land Systems in India under British rule, we shall see that the policy has been more a departure from these principles than an adherence to them.

Bengal.

The first Land settlement made by the British was in Bengal. After a fruitless attempt at farming the revenues, in 1793 Lord Cornwallis introduced a system, which is known as the Permanent Settlement. The "de facto" proprietors or landlords known in India as zemindars, were given a legal footing. The cultivators or tenants of the landlords had ancient and hereditary rights in the soil, which were to be protected. The state demand was fixed at 90 per cent of the rental; the sum so fixed was declared unalterable for ever, and hence the name Permanent Settlement.

It may be true that some of the landlords thus acknowledged did not possess a just title to the land. This was due to the confusion which prevailed in the 18th century as explained above. But this does not in any way mean that as a general rule, the Bengal zemindar had no right to be thus acknowledged. If this was true the greatest injustice was committed by the British Government in those days.

That some injustice was done cannot be denied. This was due to the fact that the settlement was made without any survey or without any detailed investigation into rights and interests attached to the land. This was perhaps due to political reasons; the British authority was not then firmly established; and the zemindars as a class were the most influential people.

To demand 90 per cent of the rental was certainly exorbitant, but the landlord had his compensation in as much as the demand was fixed for ever. According to Dutt,[1] by the end of the last century the state demand in Bengal was equal to about 28 per cent of the rental of the landlords. This is an index to the agricultural wealth of Bengal. But this also shows the injustice that is done to the rest of India. As we shall see later, the Government takes about 50 per cent of the net produce or of the rental in other parts of the country. The contribution to the land revenue from Bengal is therefore proportionately much smaller than that from other provinces.

With the growth of improvements in agriculture and the rise in prices, the rent of the landlord increased, and at the same time the assessment of 1793 bore lesser percentage to his rental. It was natural therefore, that the benefits derived by the comparative lightness of the state demand thus brought about, were ascribed to the permanency of the Bengal Settlement. The demand of 90 per cent. on the rental and the permanency of the settlement in

1. Vol. 1. p. 94.

Bengal were both mistakes. What is wanted is a reasonable demand adjusted according to the capacity of the landlord to pay. The benefits which the Bengal landlords enjoy to-day could be enjoyed if the state limited its demand to a reasonable percentage of the produce, in the manner described above. This would increase the Bengal revenue to some extent in future, and remove the gross inequalities in the incidence of Land revenue which exist at present in India. Certainly, it is time that some remedy should be devised so that the Bengal landlord might not escape in future his reasonable contribution to the national expense.

Now that under the Reform Act, Land Revenue has been made an entirely Provincial receipt, the Bengal Government may find it less difficult than before to increase their Land revenue, in case of necessity. Instead of this we find the curious position that on the plea that their Land revenue is fixed and therefore small, they should have concessions in the matter of provincial contributions, and in fact, they have succeeded in getting certain concessions.

As we have seen above, provision was made in 1793 for the protection of the Bengal tenants. But the intention was not practically carried out. The Tenancy Acts of 1859 and 1885 have placed the tenants in a position of greater security. The tenants have got occupancy rights under certain conditions, and limitations have been placed on the landlords' right to enhance the rent.

Permanent Settlement for all India.

In North Madras, where a class of zemindars similar to the Bengal zemindars existed, a Permanent Settlement similar to that of Bengal was introduced. It was also extended to the districts of Benares in 1795.

The Land Systems of the rest of India differ from the Parmanent Settlement in as much as the assessments are

not fixed for ever; they are subject to periodical revision, generally once in 30 years, though in some places the period is smaller. To distinguish them from the Parmanent Settlement of Bengal, they are called Temporary Settlements. Before we proceed to discuss the details of the Temporary Settlements, we shall briefly trace the history of the question why a Permanent Settlement was not adopted all over India.

This question[1] was brought into prominence after the famine of 1860 in North India. Colonel Baird Smith, who was appointed to enquire into the causes and extent of the famine, laid down some important truths in his report, which need not be emphasised but for the fact that they have been ignored in subsequent years. He said :—

"No misapprehension can be greater than to suppose that the the settlement of the public demand on the land is only lightly, or, as some say, not at all connected with the occurrence of famines. It lies, in reality, far nearer to the root of the matter, because of its intimate and vital relation to the everyday life of the people and to their growth towards prosperity or towards degradation, than any such accessories as canals or roads, or the like, important though these unquestionably are. It is no doubt quite true that not the best settlement, which mortal intellect could devise would cover the skies with clouds, or moisten, the earth with rain, when the course of nature had established a drought. But given the drought and its consequences the capacity of the people to resist their destructive influence is in direct proportion—I would almost say geometrical proportion—to the perfection of the settlement system under which they are living and growing."

Colonel Smith showed that the famine of 1860 was worse that that of 1837, but the people were better able to meet the difficulties of the former, because the Land System in 1860 was not so severe as that which prevailed in 1837. But in his opinion the state demand in 1860 was

1. B. P. I. p. 341. & Dutt. II. p. 273.

still heavy, and if it was reduced leaving sufficient resources with the people, and giving them impetus for impovements, the people would be better able to protect themselves against future famines. But in suggesting a practical remedy for this, he advocated that the state demand on the land should be fixed for ever.

This opinion met with considerable favour from many quarters. The Punjab Government hesitated to accept this opinion because the cultivation in the Punjab was yet backward. The Bombay Government rejected the proposal, but accepted the principle of basing the assessment on "a just and moderate proportion of the gross produce." The opinion from all other quarters was strong and unanimous in favour of the proposal. The Governments of the United Provinces, of Bengal, of the Central Provinces, and of Madras—all were of the same opinion. The Finance Member was also in favour of it. The remarks from the Government of Madras, where the Ryotwari System was first introduced, deserve notice. They said that "there can be no question that one fundamental principle of the Ryotwari System is that the Government demand on the land is fixed for ever", and to establish this principle in practice they advocated two different plans. (1) " His Excellency the Governor is favourable to the imposition of a permanent grain rent, but would reserve to Government the power of periodically determining the money value of that rent, if at any future time a material alteration in the value of money should render such a measure expedient" and (2) "the Honourable Members of Council, on the other hand, support the old Ryotwari principle of a permanent money assessment, that is to say, an assessment based on a certain portion of the crop, and converted into a money payment at a fair commutation rate fixed once and for ever."

Sir Charles Wood, the Secretary of State, agreed with the proposal and ordered a Permanent Settlement of the

Land revenue throughout India. In this despatch of July 9, 1862, among other important things, he said :—" Her Majesty's Government confidently expect that a people in a state of contentment and progressive improvement will be able without difficulty to contribute to the revenue in other ways to such an extent as more than to compensate for the disadvantage of foregoing some prospective increase of that from land ".

Two successive Secretaries of State affirmed the idea and work was seriously taken in hand to introduce a Permanent Settlement first in North India. But the progress of the work was delayed, and objections were put forward from time to time, the main objection being that there would be a great prospective loss of revenue to Government. One of the reasons which had led to the Permanent Settlement in Bengal in 1793, was to enlist the sympathy of the landowning classes in favour of the British, whose authority was not secure then. With the passsing of time, British authority was firmly established and this political consideration disappeared. Gradually, the difficulties caused by the fall in silver after 1870 became prominent and revenue considerations became more supreme than ever. In the meanwhile a new condition was laid down in the work for a Permanent Settlement,[1] "that a Permanent Settlement should be deferred so long as the land continued to improve in value by any causes which were not the direct result of the occupant's own efforts."

This meant a postponement of the question for ever. It lost its importance for some time, and at last in 1883 the Secretary of State wrote to the Government of India that[2] "I concur with Your Excellency's Government that the policy laid down in 1862 should now be formally abandoned."

1. B. P. 1. p. 343.

2. Ibid. p. 345.

The question of a Permanent Settlement for all India thus came to an end. It has been discussed in some quarters since then, but it has not affected official policy in any way. A perusal of the literature on this question shows that the one aim by which the advocates of a Permanent Settlement for all India, official and non-official, were animated, was this, that the State demand on the land should be very moderate, that it should leave sufficient resources to the landholder to meet the effects of future famines, and that it should give every impetus for agricultural improvements. We need not be sorry that a Permanent Settlement for all India was not effected; it would not be wrong if the state increases its demand when prices rise, only if the share of the state in the produce is fixed and certain, fulfilling the conditions laid down above. In the following review of the systems in the other provinces, we shall see how far the interests of the cultivator were safeguarded in this way.

Madras.

We have seen above that a Permanent Settlement was made in North Madras. For the rest of Madras, the Madras Board of Revenue preferred a settlement with Village communities, and not with individual cultivators. These village bodies were a sort of self-contained republics managing their own affairs. The Board truly pointed out that[1] "India is a great assemblage of such commonwealths". But the power of these bodies disappeared with the establishment of British Administration, which failed to make good use of this ancient institution in Indian village life—the Panchayet.

Instead of this, the system advocated by Sir Thomas Munro, of settling directly with individual cultivators or ryots was adopted. This is known as the Ryotwari system. It began with a survey of fields, which were classified

1. Dutt 1. p. 141.

according to soil. Then rates were determined for which each field was to be assessed. These rates were fixed on estimates based on general considerations at the discretion of local officers,[1] and unfortunately great reliance was placed on existing rates, which were very heavy. In theory one-third of the produce was to be taken. But after the departure of Sir T. Munro, this system was soon found to be very oppressive. Cases of torture for the prompt realisation of revenue were not rare.[2] The question was brought before Parliament and a Commission was appointed to investigate the matter. The evils of the system were exposed, and in 1855 a new survey and settlement were resolved upon. The Court of Directors openly repudiated the rent theory and prescribed moderation in assessment. They said [3]:—" the right of the Government is not a rent which consists of all the surplus produce after paying the costs of cultivation and the profits of the agricultural stocks, but a land revenue only, which ought, if possible, to be so lightly assessed as to leave a surplus or rent to the occupier, whether he, in fact, let the land to others or retain it in his own hands".

The work was, however, delayed for some time and in the meanwhile Sir Charles Wood, the Secretary of State had laid down the following rule [4]:—" I have to communicate to Your Excellency in Council my deliberate opinion that the share of the net produce, which may be fairly taken as the due of Government should be assessed at one-half".

But these instructions seem to have remained on paper only. In 1875, Sir Louis Mallet exposed the want

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1. B. P. 1. p. 294.
2. Dutt. II. p. 74.
3. 17-12-1856. Letter to Madras Government.
4. Despatch to Madras, 24 2-1864.

of any guiding principle in the Madras operations and came to the following conclusion[1] :—" I can only suppose that the answer would be, that in truth the 50 per cent. of the net produce has been a mere paper instruction, a fiction which has had very little to do with the actual facts of the administration, and that in practice the rates levied have often absorbed the whole rental,. and not infrequently, I suspect, encroached on profits also ".

As we have seen above the observations of Sir Louis Mallet also remained on paper; Lord Salisbury agreed with them, but took no difinite action. The development of the policy in Madras after this time, will be discussed later in common with other provinces.

United Provinces.[2]

In these provinces village bodies had preserved their vitality to a greater extent than elsewhere and it was resolved to make settlements with them in 1822. In some places, where zemindars were found the settlement was made with them. As a rule, a settlement was made with the Village Communities who were made responsible for the revenue not individually, but as a joint body. This System is known as the Village System or the Mahalwari System (Mahal, Village). The way in which the revenue demand was fixed was as follows. An inquiry was to be made into the actual produce of all varieties and classes of land. From the estimated gross produce, an estimated amount of the cost of cultivation was to be deducted, and the net result was supposed to be the "assets" of each village or other estate. 83 per cent of the assets was to be the state demand. This demand was reduced to 66 per cent by Lord Bentinck in 1833, when it was also provided that the settlement was to last for 30 years. It was soon found that a demand of 66 per cent was oppressive and

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1. F. O. 1880, appendix 1. p. 134.
1. Formerly known as the North-West Provinces.

prevented land from becoming valuable property to the cultivators. In 1855, new rules were issued in connection with the re-settlement of the Saharanpur district, hence these rules are known as the Saharanpur rules. The chief rule was that about one half or 50 per cent of the net assets and not 66 per cent should be the Government demand.

But this rule was evaded for a long time by taking the assets at a higher figure. The practice was to estimate the assets on general considerations, in which all prospective increase in the years following the settlement was also included. This practice of basing the revenue demand on "prospective assets" instead of on "actual assets" was not checked till the end of the last century.

The Punjab.

The Punjab system was modelled mostly on that of the United Provinces. But in this case, on account of local peculiarities, it was more difficult to find out the assets of any estate for revenue purposes as described above. At first the method adopted was similar to that which prevailed in the United Provinces for some time, known as the "aggregate to detail" method. A fiscal area was taken; the former revenue payment in that area was ascertained, and then with the aid of local knowledge of the prosperity and advantages of that area, a lump sum was fixed for it. This total was then distributed among the villages. This practice was gradually given up, in favour of a new method by which the soil was classified according to quality, and the revenue per acre was calculated, the rate generally being one half the rental, which was ascertained by facts collected in connection with specimen or standard areas. In this case also the rule was evaded for a long time by basing the calculations on "prospective assets".

Both in the United Provinces and the Punjab, the interests of the tenants were protected by suitable Tenancy

legislation. The tenants knew the conditions on which their rents could be increased by the landlords.

Central Provinces.

In the Central Provinces, the Malguzars or the "revenue payers" of pre-British days were acknowledged as proprietors. The cultivators were acknowledged as tenants. The Saharanpur Rule of taking half the net assets was applied. The settlement was made for 30 years. But the assets were estimated in such a way as to defeat the rule, as explained above. Besides in many cases, the rule itself was exceeded. The percentage taken was invariably higher; in some cases it was as high as 79 per cent.[1]

In 1883, a Tenancy Act was passed in the Central Provinces to secure the rights of the cultivators. But it did more than the Tenancy Acts in Bengal and North India. It was provided that the rents which the tenants should pay to the landlords shall be fixed by the Settlement Officer. This uncalled for intervention created many difficulties. But the chief difficulty arose with the Government themselves. Until now the Settlement Officer had evaded the 50 per cent rule by taking as assets a figure higher than the actual rental of the landlords. Now that this rental was fixed by the Settlement Officer, it was difficult to take a higher figure as before. This situation elicited the following confession from the Chief Commissioner of the Central Provinces[2] :—

> "It must, moreover, be realised that the system of Settlement to which the Government has now by law, committed itself, will render it impossible to evade the operation of the Half-Assets rule in the manner followed at the last Settlement. It will no longer be practicable to adopt for the application of the Half-Assets rule a rental value which is in excess of the actual adjusted rental, and in this way to make an assessment which, while nominally at Half-Assets, absorbs in reality a very much larger proportion of the income of the Malguzars."

1. Dutt II. p. 307.
2. Letter to Government of India, 18-5-1887.

The Chief Commissioner asked for a latitude of 50 to 65 per cent of the rental to be fixed as the Land revenue, and the Government of India gave the permission. Indeed one is inclined to agree with Dutt that[1] " a policy better calculated to repress agricultural wealth and prosperity, and to prepare the Province for starvation and famines, could hardly be compassed by the wit of man ".

Soon afterwards, in 1895 the period of settlement which was fixed for 30 years was reduced to 20 years by the Secretary of State. It is no wonder that the people of the Central Provinces were helpless during the famines of 1897 and 1900.

Bombay.

Elphinstone tried to introduce a sort of Village system in Bombay. But this plan was afterwards given up in favour of the Madras system of dealing individually with the ryot. A survey was began in 1835, and the principles of the modern settlement were laid down in 1847 by a committee of three officers, one of whom was Wingate. The method was to divide the soil into different classes according to quality, to fix the assessment of the district after inquiries into its circumstances and previous history, and to distribute the same among the villages and fields of the district. The owner of each field was left the option of cultivating it on payment of the assessed tax or on relinquishing the land. Much was left to the discretion of the Settlement Officer. In 1860 a revision was begun on the same lines ; the American Civil War created a great demand for Bombay cotton ; there was a kind of temporary prosperity among all classes ; and the state demand was increased to a great extent. The mistake became apparent in a few years ; agrarian disturbances took place in the Deccan in 1875. Sir Auckland Colvin, one of the members

1. Vol. II. p. 481.

of the Commission appointed to investigate these disturbances pointed out in detail the great burden of the state demand on the land. He said[1] :—"I think the above considerations justify me in placing the excessive enhancements of the revised settlements as third among the special causes which have combined to disturb the relations of debtor and creditor in the Poona district". He further said:—"Finally, as bearing on the relation of the enhanced assessments to the economic condition of the people, I venture to think that the Bombay administrative procedure, if I understand it rightly, is apt to press hardly on the ryot." A few years after in 1879 Sir William Hunter said in the Viceroy's Council[2] :—"The fundamental difficulty of bringing relief to the Deccan Peasantry is that the Government Assessment does not leave enough food to the cultivator to support himself and his family throughout the year."

Some improvements were made by the Bombay Land Revenue Code of 1879, but there was no security against undue enhancements of the revenue. The only instructions which guided the Settlement Officer in this matter were that he should not enhance the revenue of a Taluka or a group of village by more than 33 per cent; or that of a single village by more than 66 per cent; or that of an individual holding by more than 100 per cent.

It is easy to see the great latitude which the Settlement Officer has in increasing the revenue demand. It is no wonder if the Settlement Officer neglects the general conditions under which an increase in revenue can be made; he would often feel that it is his duty to increase the revenue to the maximum amount which the above rule allows. The cultivators are not consulted in the matter; they cannot in any way prevent the demand being kept within the Madras rule of half the net produce. There is

1. Cf. Dutt. II. p. 331.
2. Cf. Dutt. II. p. 490.

no intelligible standard by which an enhancement is made. There is no judicial appeal against the decision of the Settlement Officer. The unhappy results which have followed this policy in Bombay have been often shown by Sir G. K. Parekh.[1] The Famine Commission of 1898 found that the revenue demand in Gujarat (the northern portion of Bombay Presidency) was very high. It may be noted that the Bombay ryot is called the "occupant" and not the landowner. This is another instance of state landlordism in practice.

In this review of the Land Systems of India, we have alluded only to the main features of the typical systems in different parts of the country. We have omitted reference to other parts of India, where systems more or less similar are in existence. For example, in Oudh, the Taluqdari Settlement prevails. The Settlement is made with the Taluqdars or the Landlords. In other respects it is similar to the system in the United Provinces. The systems in Assam, Coorg and Burma have all local peculiarities, and they are generally described as varieties of the Ryotwari System.

We thus see that in all provinces of India, except Bengal, the Temporary Settlement prevails. The general rule which was supposed to guide the revenue demand in provinces, where the state took its revenue from the landlord or the village body, was the Saharanpur rule by which 50 per cent of the net assets or rental could be demanded. In Bombay and Madras, where the state took its revenue directly from the cultivator, the general rule was to take 50 per cent of the net produce, as laid down by Sir Charles Wood in 1864. But we have seen how often these rules were evaded or exceeded. We have seen that there was anything but certainty in the revenue demand; the conditions on which enhancements could be made were unknown to the cultivator. All was left to the discretion of

1. Cf. Land Problems in India, Natesan & Co.

the Settlement Officer, against whose decision there was no independent appeal. We have seen that by the Tenancy legislation in Bengal, limits were placed on the demand of the landlord from the tenants. But in other parts of the country where the state took its revenue from peasant proprietors, it imposed no such limits. The inevitable result was that the agricultural classes suffered from the greatest uncertainty, the revenue demand was kept at a high level, the people became poor, and there was no impetus to introduce improvements. The Famine relief schemes of the Government are good in themselves, but it is of little use to provide relief, if the policy of the Government makes the population resourceless in times of famine. During famine times moreover, the Government suspends or in rare cases remits the revenue. If the revenue demand was not very heavy, if it was adjusted according to just and reasonable principles, neither suspension nor remission would be necessary, except in very extreme cases.

Reforms of Ripon.

A great effort was made in 1882 by Lord Ripon to remove from future settlements the elements of uncertainty and inquisitorial enquiry. He wanted to combine security to the cultivator with the rights of the state to increase the revenue under certain definite conditions. He laid down that the state demand should be increased only when there was a rise in prices.[1] This is exactly the principle which we have laid down above. The acceptance of this principle would have secured to the people the same advantages for which the advocates of a Permanent Settlement pleaded so enthusiastically. At the same time the state would not have been deprived of an increase in revenue when prices rose. It would have been in effect a Permanent Settlement measured in produce. It combined the advantages of both a permanent and a periodical

1. Despatch 17 Oct. 1882. B. P. 1. p. 360.

settlement ; it secured the interests both of the cultivator and of the state.

But the Secretary of State differed and he laid down certain rules, which guided the Land revenue policy of the Government till 1902, when that policy was revised by Lord Curzon. Baden-Powell summarises these rules as follows [1]:—

(1) The Permanent Settlement idea is formally abandoned ;

(2) The State shall retain its claim to share in "the unearned increment" of the value of the land to which there is a tendency in a progressive country;

(3) That a general and permanent rise in the prices of produce is one of the principal indications and measures of this increment ;

(4) That it is nevertheless desirable to modify the existing system of revision of the temporary settlements of land-revenue with a view of rendering it less arbitrary, uncertain, and troublesome to the people ;

(5) That the modification should be effected at least in the following particulars :—

(*a*) repetition of field operation (survey, valuation, minute inquiries into assets and the like) which are considered to be inquisitorial and harassing to the people, should be as far as possible, dispensed with ;

(*b*) Enhancement should be based mainly on considerations of general increase in the value of land ;

(*c*) the assessment will not be revised merely with a view to equalising its incidence with that of the assessment of other estates ;

(*d*) improvements made by the land-holders themselves should not be taken into account in revising assessments ; but improvements made at the cost of the state should be taken into account, and also, to some extent, increase of cultivation.

We see that there is no limit laid down in these rules either to the share of the state or to the rate of enhancement. A rise in prices was not to be the sole basis of increase in revenue as Lord Ripon desired. It was to be

1. Despatch 8th January 1885, vol. I, pp. 364-365.

only one of the principal considerations. We search in vain in these rules to find what the other considerations were. The demand was to be fixed at the discretion of Settlement Officers, who were to be guided by these vague rules, and there was no judicial appeal against their decision. The interpretation of the phrase "considerations of general increase in the value of land" left the widest latitude to the executive officer for undue enhancements of revenue. It was an excellent principle that improvements made by the landholders themselves should not be taken into account when revising assessments, but there was no method of distinguishing to what extent a particular increase in the value of a particular field was due to private improvements and to what extent to state improvements. Cultivators got no relief from these rules, and the famines of 1897 and 1900 found them resourceless.

In the meanwhile the unhappy results of the Land revenue policy of the Government were attracting considerable attention in the Indian public. The leader of the agitation in this matter, was Mr. Dutt, who had retired after very distinguished services in the Revenue Department. In the early part of 1900, he addressed a series of five open letters to Lord Curzon, in which he exposed the evils of the systems in different parts of the country. They were afterwards published in his book called "Famines in India;" in the preface[1] we read the following:—"The only claim which these Letters have to the consideration of the British administrators and of the British public lies in the fact that they are based on a life-long study of the actual condition of the Indian cultivator in his village, and that they seek to describe the real and deep-seated causes of his chronic poverty and indebtedness, and that they represent the views and opinions of the best informed, the most thoughtful, and the most moderate section of my countrymen. For these reasons, they will, I venture to

1. p. XIV.

believe, receive the consideration of a Government which seeks by all possible means to know the views of the people themselves; and they will probably also interest the British public who are now keenly anxious to remedy, as far as is humanly possible, the causes of the recurring famines in India. There is no doubt these famines are directly caused by the failure of the annual rains over which man has no control; but it is equally certain that their intensity and their disastrous effects can be to a great extent mitigated by moderating the Land Tax, by the construction of irrigation works, and by the reduction of the public debt and the expenditure of India".

In December 1900, a memorial was presented to the Secretary of State offering almost the same suggestions which Mr. Dutt had advocated in his Open Letters. The memorial was signed by eleven retired officials, all of whom had held high positions in Government service, and most of whom had wide experience of Land Revenue Administration in India. All except Mr. Dutt were Englishmen.

Curzon's Resolution.

In answer to these criticisms Lord Curzon's Government issued the famous resolution of 1902 on the Land Revenue Policy of the Government of India. The policy then laid down guides the Land Revenue Administration of India till to-day.

Some[1] very excellent general principles have been laid down, but on the whole this document is disappointing, and does not improve the position of the people to any material degree. The demands of the memorialists were very moderate; they aimed at removing only a few of the many evils from which the cultivator was suffering. (I) The proposition that settlements should be made once in 30 years in all the provinces was not accepted. The

1. Cf. Dutt, II. Ch. VII.

practice existed in all provinces, except the Punjab and the Central Provinces, where the period was 20 years. This was justified on the ground that cultivation was backward in those provinces. The extention of the Thirty Years' Rule to these provinces was to be considered in future.

(II) The Saharanpur Rule of 1855 by which the State demand in places where the revenue was taken from landlords or village bodies, was limited to 50 per cent. of the rental was accepted. The practice of evading or exceeding the rule was to be given up.

(III) In connection with those provinces where the state took the revenue direct from the cultivators, the memorial had recommended that the land revenue should not exceed half the net produce, with a further condition that it should not exceed one-fifth the gross produce in those parts where it did. The Government misunderstood the memorialists and said that[1] "the gross produce standard recommended by the memorialists would, if systematically applied, lead to an increase of assessments all round."

(IV) In connection with the question of enhancement the memorial had asked that this should be based on a rise in prices. But the Government did not want to set this reasonable limit to their demand. They said[2] :—" To deny the right of the State to a share in any increase of value except those which could be inferred from the general table of price statistics—in itself a most fallacious and partial test—would be to surrender to a number of individuals an increment which they had not themselves earned, but which had resulted, partly from the outlay of Government money on great public works, such as canals and railways, partly from the general enhancement of values produced by expanding resources and a higher standard of civilisation."

1. Resolution, para, 17. 2. Ibid, para, 22.

The right of the state to increase the revenue would have been safeguarded if the basis of a rise in prices had been accepted. If by expenditure incurred by Government or by other causes, the value of land or of the produce increased, it would be reflected in the state of prices. In any case, this would have been a basis which the cultivator could have understood to some extent. But in the eyes of the Government this was a " most fallacious test."

(V) The ineqalities and the burden of the local cesses were admitted, but the consideration of a remedy was postponed

The Government of India further laid down certain general principles in respect of (1) the progressive and graduated imposition of large enhancement, (2) greater elasticity in the collection of revenue, (3) and a more general resort to reduction of assessments in cases of local deterioration.

Finally, they comforted themselves with the conclusion "that over-assessment is not, as alleged, a general or widespread source of poverty, and indebtedness in India, and that it cannot fairly be regarded as a contributory cause of famine".

The general argument of the Resolution and the above misleading conclusion are due to one important fallacy. The Government assert that progressive moderation in the state demand is the keynote of their policy. In support of this they point out the high percentage of net assets that was demanded in the early days. In Bengal 90 per cent was taken; in other places it was 83 per cent at first and was gradually brought down to about 50 per cent. If these facts show anything they show the extreme severity of the state demand in the early days of British rule. It is useless to talk of moderation, if that moderation is in relation to the oppressive demand of former years.

The real question is whether the present theoretical limit of 50 per cent leaves enough with the cultivator to meet bad seasons and to encourage him in effecting improvements. The question is whether the cultivator is made to contribute a reasonable share towards the maintenance of the state, or whether the state manages to exact as much as it can without due regard for equitable considerations.

A similar argument is sometimes put forward when it is said that the present demand is much less than the demand of the native rulers, who preceded the British. As we have seen, the period of confusion and oppression cannot be a proper basis for comparison. Moreover the figures of revenue demand in the times of the Mughals are not reliable. These figures usually show the demand and not the collection. It is notorious that the practice with most of the native rulers was to make a large demand, which was rarely realised.[1] The system of collection in those days was not so rigid as it is now. On account of these reasons, such comparisons prove little.

The facts are that during the 18th century the condition of the Indian farmer was bad, chiefly an account of the unsettled condition of the country, frequent wars, and the exaction of conquerors. When the British became supreme, peace and order were restored. But with the coming of peace, the Indian farmer was not relieved of the oppressive burdens on the land. As we have seen above the taxation on land during the time of the Company was so high as to take away all motive for agricultural improvements. The impoverished farmer of the 18th century got no time to improve his situation in the 19th. Even under the Government of the Crown, though some efforts were made on paper to reduce the burden on land, they were not carried out in practice. It was no wonder then if hundreds of thousands perished in the famines of the last century.

1. Cf. B. P. 1. p. 369. and Cotton, New India pp. 97-98.

It cannot be denied that there are other causes which help to bring about such results, but it is equally true that the severity of the burden on the land is not an unimportant cause.

As we have seen above, Lord Curzon's Resolution of 1902 has done little of a practical character which would remove the many evils from which the ryots suffer in many parts of the country. The greatest defects in any system of taxation, those of uncertainty, inequality and inability to pay, exist in India. The greatest protection to the taxpayer in all civilised countries, that of an appeal to the law courts is denied to the Indian farmer. The greatest check to Executive indiscretion, that of land revenue laws framed by a representative legislature, does not exist in India. There is no safeguard either against the percentage of the state demand or against the rate and conditions of enhancement of Land revenue. The theories of State landlordism which did such great mischief in the early days are still acted upon till to-day.

Inequality in Land Revenue.

We have referred to the inequality in land taxation in different provinces. Sir Louis Mallet pointed out this fact in 1875. Taking the figures for 1871, he calculated the net Land revenue per square mile, and per head of population in the different provinces. He arrived at the following results[1] :—

Province.	Land Revenue per square mile.			Land Revene per head of population.		
	£.	s.	d.	£.	s.	d.
Bengal and Assam	17	14	3	0	1	1½
Bombay and Sind	22	0	11	0	3	4½
Madras	29	0	9	0	2	6¾
North West Provinces ...	45	4	9	0	2	4¾
Punjab	17	6	4	0	2	0

1. F. O. 1880, appendix. I p. 143.

In the following table we have the incidence of Land revenue per head of population in the different provinces, in the years 1881, 1892, 1898, 1913 and 1920. The figures for 1881 are those which were worked out by Sir David Barbour. The figures for 1892 and other years are taken from "the Agricultural Statistics of British India." The figures of the years preceding 1892 in this publication are not complete.

Land Revenue per head of population.

Province.	1881			1892			1898			1913			1920		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Madras ...	1	7	6	1	7	2	1	9	5	1	7	3	1	7	7
Bombay ...	1	15	6	1	15	2	2	0	0	2	1	0	2	5	3
Sind ...	......			2	12	9	2	9	1	2	9	0	2	13	3
Bengal ...	0	8	11	0	8	10	0	8	11	0 0	10 7	0 0	0	10	6
U. P. ...	1	4	10	1	5	4	1	5	5	1	5	7	1	4	11
Oudh ...	......			1	2	1	1	3	6	1	6	6	......		
Punjab ...	1	1	4	1	4	3	1	4	10	1	15	0	2	5	0
C. P. ...	0	9	10	0	10	3	0	11	11	0	15	0	......		
Upper Burma ...	......			1	14	3	2	11	3	3	14	0	3	7	5
Lower Burma ...	1	13	8	2	3	5	2	3	11	5	0	0	5	3	1
Assam ...	0	11	7	0	12	7	1	2	3	1	3	0	1	5	0

We thus see that the great inequalities which were pointed out by Sir Louis Mallet for 1871, and by Sir David Barbour for 1881 exist till to-day.

Growth of Land Revenue.

Before we proceed to consider the total results of Land Revenue, we must refer to the inconsistency in the accounts due to the item "portion of Land Revenue due to Irrigation," which has been explained in another connection.[1] The average Land revenue in the different periods together with the revenue from Provincial Rates, after making the adjustment on account of the inconsistency due to the item

1. See pp. 244-245.

"portion of Land Revenue due to Irrigation" is shown below:—

	in lakhs of Rs. gross	net
First period	20,21	17,88
Second period	26,86	23,36
Third period...	33,60	28,05
Fourth period	35,26	29,01

The steady increase in the burden on Land is noticeable in these figures. In spite of the criticism of Dutt and his co-workers which applied chiefly to the second period, and in spite of the Resolution of 1902, we find that the increase between the second and third periods is almost the same as that between the first and second periods.

Under the Reforms.

Under the Reforms, Land Revenue is entirely a Provincial receipt, and consequently Land Revenue Administration and allied problems are also in the hands of the Provincial Governments. The Land Revenue systems in the different provinces, and the general policy hitherto followed as explained above are still in operation. In the Provincial sources of revenue, Land naturally stands first. Almost all the provinces started with deficits under the Reforms, and in each of them the possibility for further expenditure is great. Fresh taxation has been imposed in some provinces to make both ends meet, but there are obvious limits to this, and unless retrenchment goes sufficiently far, it is not unlikely that the Provinces may think of increasing their Land Revenue. Rumours are already afloat about this tendency. From what we have said above, with the exception of Bengal, and other permanently settled areas, the people in other provinces are not in a position to bear any substantial further burdens on the Land. In Bombay, a Committee has been recently appointed to consider the question of Land Revenue Settlements.

Provincial Rates.

We have not yet discussed what are known as "Provincial Rates", which increase the burden on the land due to the Land revenue. Some minor cesses on the Land existed before 1870. In that year when the Decentralisation scheme of Lord Mayo came into force, additional cesses on the Land were imposed in some provinces. In 1878, when the Famine Insurance Scheme came into operation further cesses on the Land were imposed. In order to provide the necessary funds for this scheme, it was resolved to levy additional taxes on the agricultural and trading classes. The result was the imposition of License Tax on the trading classes and of additional rates on Land on the agricultural classes.

The existing laws for the levy of rates on land were amended and extended. The revenue from this source was to be applied (1) for the relief and prevention of famine, (2) for provincial canals and railways, and (3) for productive improvements such as the construction and repair of roads, for schools, sanitation, postal arrangements, and in some provinces for village police.

The rates are levied in some provinces on the "assets" or rental value of the land, and in others on the land revenue; they are collected with the Land Revenue. As a general rule, at the end of the second period, in Bombay, Madras and Bengal the rates amounted to one anna on every rupee of the of the Land revenue or 6¼ per cent. In Lower Burma the percentage was 10, and in Assam 8.3; in the United Provinces 6 and in the Punjab 5.2.

In the early years of this century, on account of a series of surpluses, taxation was remitted or reduced in certain cases. Among the taxes thus affected were Provincial Rates, which were substantially reduced from 1906. This policy was further extended in recent years

with the result that the revenue from this source was only 4 lakhs in 1920.

It is evident that the burden of these rates falls on the agricultural classes in addition to the Land Revenue. In other words, the tax on the Land is increased by this amount. This must have been particularly felt when before 1906 these rates were heavy and amounted to more than 4 crores of Rs. It was no consolation to the cultivator when he was told that this additional impost on the Land was meant for local improvements. He already contributed more than his share towards the expenses of the state, and in times of famine the helpless situation of the ryot must have been intensified by these measures.

CHAPTER XIII.

DIRECT TAXES :—(B) TAXES ON INCOME.

Early History before 1886.

The term "Assessed Taxes"[1] included a number of direct taxes upon individuals, in respect of their incomes or means of livelihood. Under pre-British rule, trades and professions were subject to an impost known in South India as Moturpha from an Arabic word meaning an "artificer." In Bengal, this was comprised in the Sayer or Miscellaneous revenue, which was abolished in 1836. In Madras, Moturpha was continued down to 1860. In Bombay it was removed in 1844, when the duty on salt was raised to make up the deficiency.

An Income-tax was for the first time introduced in India from 31st July 1860, by Mr. Wilson, as one of the measures to meet the financial emergency caused by the Mutiny. It was carried out against the strenuous opposition of Sir Charles Trevelyan, then Governor of Madras, who was consequently recalled.[2]

It was to be a temporary measure and last for five years. It was levied at the rate of 2 per cent. upon incomes between Rs. 200 and Rs. 500 a year, and of 4 per cent. upon incomes above Rs. 500; and of this last-mentioned 4 per cent, one per cent. was appropriated to roads, canals and other reproductive works. It applied to all incomes, whether from land or other property, trade, or profession, interest or salary, officers of the naval and military forces being excepted. Landowners whose rent

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1. This term is used for taxes on income in the early Financial Statements of India.

2. It was on account of the publication of his minutes against the Income Tax, that he was recalled. His experience at the English Treasury and his wide knowledge of Indian affairs won for him the position of Finance Member in 1863.

value was less than Rs. 600 a year, were exempted. The assessment was to be annual, but before the first year had expired, an Act was passed, authorising the Governor-General-in-Council to continue the original assessment for another year and in 1862 this power was extended to the remaining three years.

The futility of taxing such low incomes as between Rs. 200 and Rs. 500 a year was soon perceived. Those who came under this category were two-thirds of the income-tax payers, and paid only one-fifth of the revenue. In 1862, this whole class had to be exempted. The number of taxpayers in this year was reduced from 1,055,351 to 344,630 and the revenue suffered a loss of £ 78,000 only.

In 1863, the rate of four per cent. was reduced to three. Efforts were made to continue the tax after 1865, when it was to expire, but Sir Charles Trevelyan, who was Finance Member at the time, succeeded in keeping the word of the Government and the tax came to an end on 31st July 1865. Considered as a potent but imperfect fiscal machine, it was regarded as the great financial reserve of the country ; it was laid on the shelf ready to be re-imposed in case of emergency.[1]

But the Government had not to wait long to find an emergency. In the year following the abolition of the Income Tax, they had a deficit of 2·8 m. £, and for the year 1867, the Finance Member found it necessary to provide against a further deficit of more than a million. The Hon. Mr. Massey was convinced that the imposition of an Income Tax would be fraught with great difficulties and even with danger, and he preferred to levy a License Tax on trades and professions, because, as he believed, it would apply to persons who contributed nothing to the resources of India.[2] All persons exercising a profession or trade, whose profits exceeded Rs. 200 annually, were

1. Cf. F. S. 1865.
2. S. C. 1872, Q. 8582.

to pay for a license on a graduated scale varying from Rs. 4 to Rs. 500. It affected 742,889 persons and brought a revenue of £ 584,000.

In 1868, this Act was replaced by another which imposed a Certificate Tax varying from Rs. 8 to Rs. 6,400 on all persons exercising professions or trades, whose annual profits exceeded Rs. 500 a year. As a result nearly two-thirds of those who came under the operation of the previous year were exempted, and the revenue suffered by £ 138,000.

But in spite of these makeshifts, deficits continued. During the three years, ending with March 1869, there had been a total deficit of 6·5 m. £, and the budget of 1869 could not show an equilibrium without fresh taxation. The mask of the License Taxes was given up, and an Income Tax was once again levied. In its operation, it brought under taxation those who were exempt from the Certificate tax. The mean incidence of this tax which was about one per cent. on profits, was retained for the Income Tax. Government salaries were at first assessed at the same rate, which was subsequently raised to 2½ per cent. The minimum income to be taxed was Rs. 500 a year. The principle of rough assessment by classes as practised in the case of the Certificate Tax was maintained, with a view to avoid individual assessment, and the consequent inquisitorial processes.

On account of causes to be explained later, the assessments under the Act of 1869 were excessive. The rate of tax was however light—one per cent. Both assessors and assessees believed that the Government wanted money, that the tax was temporary and would not be continued. Persons whose legal liability to pay was doubtful were included in the assessment ; they however preferred to pay a light tax for one year rather than incur the expense and trouble of appealing to the District Collector.

During the course of the year, however, in November 1869, the rate of duty was raised to 1½ per cent, it was provided that any person who had been assessed to the one per cent tax and had not objected could not raise any objection when called upon to pay the additional one-half per cent. This led to considerable discontent and irritation among the assessees.

Curiously enough in his estimates for 1870, Sir Richard Temple again found himself on the losing side. On the one hand, the revised estimates of 1869 showed that the year would close with a substantial deficit, and on the other the budget estimates for 1870 showed a prospective deficit of 1·3 m. £. Moreover, the credit of the Government was to be pledged at this time for the construction of "Extraordinary Public Works." Fresh resources had to be found and for want of any other, it was resolved to increase the Income Tax. "It is", said the Finance Member, "with regret and reluctance that we bend to the necessity of raising the rate of income tax from 1 to 3⅛ per cent. within so brief a period."

Following the English practice, the percentage rate was abolished and in future the tax was to be so many pies in the rupee. Two pies were assumed to be the approximate equivalent of one per cent. and the new tax was levied at the rate of 6 pies in the rupee. The taxable minimum was Rs. 500 a year. With the increase in the duty, the old method of rough assessment by classes was given up, and rules were laid down for more regular methods of assessment.

For the year 1871, it was found possible to reduce the tax from 6 pies to 2 pies in the rupee. Of greater importance than this reduction was the raising of the taxable minimum from Rs. 500 to Rs. 750 a year. Complaints regarding the pressure of the tax, over-assessment, exaction and other sources of vexation, compelled the

Government to introduce this reform by which half the Income Tax payers were relieved.

This reform was further wisely extended in the next year (1872), when the minimum income was raised to Rs. 1,000 a year, about one-fourth of the Income Tax payers of the previous year being thus exempted. The tax was not renewed in the subsequent year.

This short sketch of the history of Taxes on Income during the first period shows the failure of the Government to reconcile the people to this form of taxation. We shall briefly summarise the causes of this failure :—

I. The Income Tax has become one of the chief sources of revenue in many western countries to-day. But the history of Income tax shows that it is more or less of recent growth. The main fact which emerges from the Income tax systems of other countries is that for the successful operation of this tax a highly commercialised condition is required.

In England, the Income Tax was first imposed by Pitt during the Napoleonic wars. It was repealed in 1816. The real introduction of the Income tax in England may be said to have begun in 1842[1]. By this time England had become the first industrial and commercial nation in the world. Even then the tax was not intended to be permanent. It was renewed in 1845, 1848, 1851 and 1852. In 1853, Gladstone condemned the principle of the tax and referred to the inquisition, fraud, immorality and inequality that arose from it. Though the tax was "an engine of gigantic power for great national purposes," he said, "there were circumsstances attending its operation which make it difficult, perhaps impossible, or at any rate not desirable, to maintain it as a portion of the permanent and ordinary

1. Cf. Sidney Buxton Vol. 1, pp. 111, 112, 194.

finance of the country." He provided for a gradual extinction of the tax in 1860, but in the meanwhile the Crimean War had upset his calculations. Gladstone's subsequent attempts to dispense with the tax also failed, and though his dream was to destroy the tax, his fiscal work resulted in making it perpetual.

If England, having attained the first commercial position in the world, hesitated so long to accept the Income Tax as a permanent source of revenue, India with agriculture as her main occupation, from which she already derived the greatest amount of revenue, was certainly not prepared for the successful operation of the Income Tax during 1860-1872.

II. It was a most novel form of taxation. The average Indian could not understand the necessity of submitting his pecuniary or private affairs to the enquiry of the state. It was no wonder if there was a large number who, conscious of their position as a conquered people, connected the idea of the Income Tax with some prospective plan of confiscation. The existence of a machinery by which the Government might dive into the purses of the people to any extent, by giving a few turns to the screw, was a standing menace to the people, the effect of which can hardly be exaggerated.[1] In the words of Sir Charles Trevelyan, "when the orders came from Calcutta for levying the income tax, it was much as if an avatar (incarnation) of one of their malignant deities had imposed a new strange instrument of torture."[2]

The method of assessment which the Government adopted illustrates how they were afraid of constant interference with the people. The assessment made in 1860 was continued till 1865 without any change, though during the interval on account of the American Civil War, certain

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1. Cf. S. C. 1872 Q. 8582, and S. C. 1873 Q. 1080.
2. S. C. 1873 Q. 96.

classes of people had become temporarily rich. Again the rough assessment of the License Taxes was continued, till the Income Tax was raised to 6 pies in the rupee in 1870.

III. These efforts of the Government to minimise as far as possible, the effects of constant inquiries into peoples' affairs, were of no avail, because of the existence of a greater evil, which they had no power to control. On account of the peculiar situation in India at this time, when the sympathy of the people was not enlisted on the side of the Rulers, the Government were unable to secure trustworthy underlings.[1] "The officers who made the assessment had to be specially employed for the purpose. They were generally clerks of the Collectors' or Commissioners' Office, accustomed to a sedentary life and with little or no previous knowledge of the tract they were called on to assess. Sometimes they were Schoolmasters or police officers; and in the list were included some who were officially described as being difficult to class." "That these sub-ordinates were in many cases corrupt cannot be doubted, and there are numerous cases reported in which persons falsely assumed the title of Ameen or Collector of Income Tax, and travelled about the country taking bribes, on the pretence that they would arrange to have all persons who paid them exempted from the tax."

More than any thing else, the greatest dislike for the Income Tax came from the actions of these subordinate servants of the State. The extent to which the people were oppressed under the system of corruption and extortion which prevailed had no limits. Instances have been mentioned, in which cultivators threatened to emigrate to Nepal, where there was no Income Tax, the reason assigned being that the underlings "would probably assess a man of £. 75 as possessing £. 400 or 500 for the sake of obtaining bribes."[2] It would be difficult to believe, if it were not

1. S. C. 1871 Q. 9587.
2. S. C. 1872 Q. 7994.

recorded and supported by a Finance Member, that there occurred cases of suicide, "which were attributed by the local authorities to excessive dislike of the income tax, or rather of the inquiries occasioned by the income tax."[1]

IV. The frequent changes that were made in the form of the tax between 1867 and 1870 made the tax very unpopular. The assessment became closer, the rate of duty was increased, and the procedure for enforcing payment was made more strict.

V. In 1869, the Government of India raised an alarm as to the state of their finances and issued orders[2] which resulted in excessive assessments in that year, and gave

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1. Samuel Laing, S. O. 1872 Q. 7674.

2. Two Circulars were issued by the Government of India in this connection. In the first, (31 March 1869) they said:—"The Governor General in Council is anxious to impress upon all Governments and Administrations the importance of making the tax as productive as is fairly possible under the conditions of the case. The second (18-8-1889) said:—"The Right Honourable the Governor General in Council finds reason to doubt whether the Local Governments and Administrations are in all cases taking sufficiently active measures for insuring the proper assessments and collection of the Income Tax.

The Administration of the License and Certificate Taxes is shown to have been frequently unsatisfactory. Unless much greater efforts are used for the through realisation of the Income Tax, it is certain that the just dues of the State will not be secured, and the revenue expected and relied upon from this source will not be obtained. In the Circular Order from this Department (Financial), No. 1911, dated 31 March 1869, it was pointed out that the successful enforcement of the Income Tax must, from its nature, depend largely upon the skill and energy of the executives to whom its administration is entrusted, and the confidence of the Government of India in the exertion of these officers was expressed. The Right Honourable the Governor-General in Council considers it necessary again to call the most earnest attention of the Local Governments and Administrations to the subject".

more opportunities to the subordinate officers for oppression and extortion. The Lieutenment-Governor of Bengal remarked—"The number (of assessees) in 1869-70 much exceeds any other year. It is not apparent how the tax happened to be more pressed in that year than in any other; but it must have been so. There are no means of knowing how many wrongly got off; but it is certain that many were wrongly taxed."

VI. The disability imposed on the assessees of 1869, that they could not appeal when the tax was suddenly raised by 50 per cent. in November 1869, increased the discontent. This action was generally regarded as a breach of faith by the Government. The Commissioner of the Presidency Division of Bengal reported,—"Since the British connection with India began no measure has ever been introduced which caused such deep dislike to our rule, to use a mild term."

We have seen that the Income Tax was given up in 1873. No Assessed Tax existed during 1873-77, till in the latter year, the License Tax was revived.

By the end of 1877 the Famine Insurance Scheme had been formulated. It was resolved to increase the resources of the Government of India by 1·5 m. £. The revision of Provincial Contracts in that year had given the Government of India ·4 m. £. The remaining 1·1 m. £. was obtained by additional taxation in 1870. This took the form of extra burdens on the trading and agricultural classes. The latter were asked to pay special rates on the land in addition to the Land Revenue. The former were asked to take out a license and pay for it certain specified fees.

Separate License Tax Acts were passed in different provinces, and the system varied a little from province to province. Generally speaking, however, the License Tax operated as an Income Tax of 2 per cent. on all

incomes not derived from Property, Professions or Offices. Incomes as low as Rs. 100 a year were taxed.

During the next two or three years the evils of the system became apparent.[1] People with very small incomes were brought under the pale of this taxation, whereas the professional and salaried classes, some of whom possessed very large incomes were entirely free from this tax. This inequality gave rise to loud complaints. A partial remedy was applied in 1880 when the taxable minimum was raised to Rs. 500. Though in this way, the very poor were relieved, the suggestion of taxing those rich men who were exempt from the License Tax was set aside.[2]

The year 1882 was marked by the abolition of the Import Duties—a step which had become necessary by the abolition of the Cotton Duties in the previous years. Though remission of taxation was possible, it was not thought proper to abolish the License Tax. The evils of the tax, as it existed were acknowlegd by Major Baring in his Financial Statement in these words—"In fact, whatever opinions may be held in respect to direct taxation generally in India, there can be no doubt that the present License Tax is open to serious objections. Not only are there great inequalities in its incidence in various Provinces, but also it is open to the very great objections that, in respect to those classes who are taxed, it falls with disproportionate hardship on the less wealthy, and, further, that other classes, who might with justice be

1. Cf. Fawcett, pp. 125-128. "The license tax as now levied is virtually an income tax of about fivepence in the pound imposed upon all those who derive an income from trade or from skilled labour. Professional and official incomes are entirely exempted from the tax. The Governor-General with 25,000 £ a year, the officers in the army, the well-paid civilians, successful barristers and doctors do not contribute a farthing to the tax, but it is levied from every petty trader and every handicraftsman, although their scanty earnings may amount to no more than 4s a week."

2. F. S 1880, para 56.

called upon to pay the tax, are altogether exempted." In spite of this, the question of removing these evils was postponed on the plea that the Government would be in a better position to consider it in the succeeding year.

In 1883, however, the Finance Member said with reference to the License Tax that "after full consideration, the Government has decided not to propose any change in the existing system for the present," because it was necessary "to allow more time to elapse with a view to watching the effect of those reforms which had (have) been already effected".[1]

Income Tax Act, 1886.

The inequalities of the License Tax remained for three more years till in 1886, the Government of India were forced to have recourse to the Income Tax. In January of that year, the Finance Member introduced a bill in the Legislative Council for imposing a tax on incomes derived from sources other than agriculture. He pointed out that since 1882 when taxation had been reduced there had been three years of financial equilibrium. "But", he said, with the present year, our brief spell of happiness has come to an end; the fat kine have passed on; the lean kine are coming in. Three uninterrupted years of prosperity is a godsend in the annals of any nation; in our Indian annals it is extraordinarily rare good fortune".

The chief causes of the difficulty were given as those due to the loss by Exchange, and the increased Military Expenditure, which had been recently undertaken. The increased expenditure was estimated at 2 m. £. of which it was necessary to provide ·7 m. £ by additional taxation. The rest was expected to come from the existing resources. It was for this reason that the Income Tax was to be imposed.

The merits and demerits of direct taxation in India had been discussed ever since 1860. Into the "imposing

1. F. S. 1883, p. 42.

structure of former discussions" on the question, Sir A. Colvin did not wish to enter. He proceeded at once to point out the merits of the measure that he was introducing. Firstly, it was built on the foundations laid nine years ago for the License Tax, and was not an introduction, " but an enlargement, an extension, and equalisation, of direct taxation." Secondly, it left the existing License Tax undisturbed in the case of the lowest classes of income, except so far as it added professions and offices to trades and dealings. The chief features of the Bill were:—(1) Incomes derived from land assessed to land revenue and from agriculture were exempted. (2) Incomes derived from property solely employed for religious or public charitable purposes were exempted. (3) Salaries of officers and soldiers employed in a military capacity, when they did not exceed Rs. 500 a month, were exempted. (4) As in the License Tax, incomes below Rs. 500 a year were exempted. (5) Incomes between Rs. 500 and Rs. 2,000 a year were assessed at an average rate of 2 per cent or 4 pies in the rupee. The same was the case in the License Tax. And (6) Incomes above Rs. 2,000 a year were taxed at the rate of 2½ per cent or 5 pies in the rupee.

In the Income Taxes of 1861-1872, we have seen that incomes from Land were taxed. This was due to the idea that the Land Revenue was a rent and not a tax. By 1886, in addition to the Land Revenue, various cesses had been levied on the Land. The agriculturist paid more than his proper share towards the maintenance of the State. His contribution was not officially recognised as a tax, but the fact that he already paid it, was indirectly recognised by exempting him from the Income Tax in 1886. It was an injustice to call this an exemption for he already paid a tax on his agricultural income in the shape of Land Revenue.

For administrative convenience, Incomes were divided into four parts:—(1) Salaries and Pensions; (2) Profits

of Companies; (3) Interest on Securities; and (4) Other Sources of Income.

Two amendments were moved to the Bill.[1] The first aimed at making the Act annual, instead of permanent. The second aimed at raising the taxable minimum to Rs. 1,000. Both were defeated. It was also pointed out that Import Duties could easily bring the revenue that was desired from the Income Tax.

With regard to parts 1 and 3, it was laid down that Salaries and Pensions paid in India, and Interest on Securities paid in India, were subjected to taxation. The consequence was that Salaries and Pensions as well as Interest on Securities paid in England did not contribute anything to the revenue.

The objection to the policy by which large salaries and pensions are paid in England out of Indian revenues, becomes stronger when we take this fact into consideration. The objection to the increase in Sterling Debt, with the consequent increasing in Sterling Interest charges becomes still more serious. In justice to India, it ought to have been provided that this income was earned in India and therefore should be taxed.[2] It is only a question between the Government in India and the Government in England, as to who should receive the tax from this sort of income. This question was raised in 1916 in the Legislative Council. The Finance Member explained it away in these words [3]:—"They (sterling securities) escape our income tax because they are not liable to it, but

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1. By the Hon. Peari Mohan Mukerji, supported by V. N. Mandlik.

2. The interest on the securities of England held by foreigners is taxed both in England and in the country of the foreigner. Such double taxation may be bad in principle, but it is difficult to see why an exception was forced upon India.

3. F. S. 1916, p. 138.

they pay at the source in London to the British income tax. Now Sterling securities have been ruled by the Law Officers of the Crown to be techincally not Indian securities, that is not securities of the Government of India; they are securities issued in London by the Secretary of State for India. So that they are not taxable as securities under the Act, but only in the event of the proceeds being remitted out here, in which case they are taxable under section 3 (5) as incomes or profits accruing or received in British India". It is an interesting and convenient legal fiction to call the Sterling Securities of India, on which the Indian taxpayer pays the interest, as being "not securities of the Government of India".

With regard to the second part, it was provided that the net profits made in British India by a company were liable to the tax. Accordingly, the Government of India assessed the Guaranteed Railway Companies on their net earnings, that is, their gross receipts less working expenses. The Secretary of State, however, decided that the guaranteed companies should be assessed on their surplus profits, that is, their profits over and above their guaranteed interest. The original assessment which was £68,426, (in 1886) was thus reduced to nearly one-fifth £14,806.[1]

The profits of a shipping company incorporated or registered out of India were exempted from the Income Tax. The foreign trade of India is carried on mostly by English shipping companies, who got this concession. The Peninsular and Oriental Company, for example, who made their large profits under the protection of the Indian Government paid nothing, whereas a petty trader with Rs. 500 as his income was taxed.

Under the License Tax, the question had arisen whether tea-planters and others who sold the produce of their own land were subject to the tax. They were

1. F. S. 1887, p. 35.

exempted by executive orders, and this practice was authorised by the License Tax Amendment Act of 1880. The same exemption evidently was allowed under the Income Tax.

The point at issue was whether the income of the tea-planters was an agricultural income. If the tea-planters sold the tea-leaves as they came from the fields, certainly their income would be agricultural. But the same tea-planters had their own manufacturing concerns in which the tea-leaves were prepared into the ordinary tea for the market. The income derived by the sale of this tea was classed as agricultural, and exempted from the Income Tax. This continued till recently, (1920) when it was decided by the Calcutta High Court that a part of the income was agricultural, and that another part which was due to the manufacturing processes was non-agricultural, and hence liable to the Income Tax.

We have seen that Salaries and Pensions as well as Interest on Sterling Securities paid out of Indian revenues contribute to the British Income Tax and not to the Indian Income Tax. The Guaranteed Railway Companies, the Shipping Companies and the Tea-planting Companies are all English Companies who got unjust concessions at the cost of the Indian Treasury.

Recent Changes.

The Act of 1886 in spite of occasional complaints remained in force for a long time. In 1903, the taxable minimum was raised to Rs. 1,000, and in 1916 when war taxation was imposed for the first time, the rates of income-tax were increased on the progressive principle. Incomes below Rs. 5,000 paid at the old rate; those between five and ten thousand paid 6 pies in the rupee; those between ten and twenty-five thousand paid 9 pies, those above twenty-five thousand being taxed at one anna in the rupee.

In 1918, an Act was passed which introduced administrative improvements in the working of the income-tax machinery. Instead of the four classes into which income-tax payers were divided according to the Act of 1886, there were introduced six classes:—(1) Salaries; (2) Interest on Securities; (3) Income derived from House Property; (4) Income derived from business; (5) Professional earnings; and (6) Other sources.

In 1919, the taxable minimum was raised to Rs, 2000 and further increases in the rates of tax on the progressive principle were introduced in 1921 and 1922. The following table[1] summarises the changes in the rates made from time to time, the rates in the last column being in operation at present. Companies and registered firms are taxed, in the first instance, at the highest rates; they can get refunds if they prove that their incomes are lower.

Super-Tax.

Another feature of War taxation in India was the imposition of the super-tax in 1917. This was levied on large incomes above Rs. 50,000 in addition to the existing income-tax. It applied in general to incomes of individual assessees. It was not to be deducted at the source from dividends or interest on securities received by individuals; such proceeds were included in the total income to be assessed. Companies and firms were chargeable to

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1. Income-Tax rates in pies per rupee.

Incomes Rs.	1886	1903	1916	1919	1921	1922
0— 500	...	...	...	...	...	...
500— 1000	4	...	...	...	...	...
1000— 2000	4	4	4	...	...	...
2000— 5000	5	5	5	5	5	5
5000—10,000	5	5	6	6	6	6
10,000—20,000	5	5	9	9	9	9
20,000—25,000	5	5	9	9	12	12
25,000—30,000	5	5	12	12	12	12
30,000—40,000	5	5	12	12	14	15
over 40.000	5	5	12	12	16	18

the tax on such portion of their income as had not been distributed in dividends or in payments to members of firms. In the case of a Hindu undivided family, so much of the joint income of such a family as had been actually spent or paid for the maintenance or other expenses of any member of such family or paid to such member was exempted.

In 1920, the Super-Tax Act was brought into relation with that governing the Income Tax. The existing super-tax on the undivided profits of companies and firms was replaced by a new super-tax, at a flat rate of one anna in the rupee, on the whole income of companies in excess of Rs. 50,000. The shareholder also paid on his individual income including the dividends on which the company had paid the flat rate. The super-tax on the shareholder was thus really an individual tax; that on companies resembled a corporation tax, and formed as it were an item in the working expenses of the companies. The changes in the rates of super-tax are given in the following table, the rates in the last column being in operation at present.[1]

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1. Super-tax rates in annas and pies.

Incomes Rs.	...	1917.	1920.	1921.	1922.
0 to 50 thousand	...	......	...	...	...
0 to 75 thousand		In the case of undivided Hindu family.	...	...	...
75 thousand to 1 lakh			1 0	1 0	1 0
50 thousand to 1 lakh	...	1 0	1 0	1 0	1 0
1 lakh to 1½ lakhs	...	1 6	1 6	1 6	1 6
1½ lakhs to 2 lakhs	...	2 0	2 0	2 0	2 0
2 lakhs to 2½ lakhs	...	2 6	2 6	2 6	2 6
2½ lakhs to 3 lakhs	...	3 0	3 0	3 0	3 0
3 lakhs to 3½ lakhs	...	3 0	3 0	3 6	3 6
3½ lakhs to 4 lakhs	...	3 0	3 0	4 0	4 0
4 lakhs to 4½ lakhs	...	3 0	3 0	4 0	4 6
4½ lakhs to 5 lakhs	...	3 0	3 0	4 0	5 0
5 lakhs to 5½ lakks	...	3 0	3 0	4 0	5 6
over 5½ lakhs.	...	3 0	3 0	4 0	6 0

Excess Profits Duty.

On September 10, 1918, a resolution was adopted by the Imperial Legislative Council declaring that the prolongation of the War justified India's taking a larger share than she did of the cost of the military forces raised or to be raised in this country. The amount of this contribution was estimated at £. 45m. It was to raise this money that the Excess Profits Duty was introduced for one year in 1919. The duty absorbed 50 per cent. of the excess of the profits made in an accounting period of 12 months over a certain standard. The standard profits were considered to be either 10 per cent. of the capital or the average profits assessed for income-tax in certain pre-war and war years. The Collector was empowered to give special treatment to cases of hardship. Appeals could be made to the chief revenue authority or to a board of referees. Super-tax or Excess Profits Duty, whichever was larger in amount was charged. For the purposes of income-tax, Excess Profits Duty was deducted from the income. Businesses which did not earn Rs. 30,000 a year were exempted. The duty was not to reduce the income to this sum. Agriculture, offices or employments, professions dependent on personal qualifications and businesses liable to the Excess Profits Duty in the United Kingdom were exempted. The Act was not renewed in 1920.

Double Income Tax.

A person may have two or more sources of income, in the country of his residence as well as abroad. In such cases, the Government of his country levies income-tax on his total income—home and foreign, because of his residence in that country; and the foreign country levies income tax on his foreign incomes, because the income arises in that country. From the point of view of the tax-payer, this double tax is certainly a hardship, and

was much felt when during the War the income-tax rates were greatly increased in different countries. So far as foreign countries are concerned, no remedy has yet been devised.

When such cases, however, arose within the Empire, the idea, that people were taxed twice over for purposes which were very largely the purposes of the Empire as a whole, gained ground. The Government of England gave some partial reliefs to such cases in the Finance Acts of 1916 and 1918, and the question came for fuller consideration before the Royal Commission on Income Tax, 1920. A sub-committee of the Commission conferred with the representatives of the Dominions and India, the Indian representative being Lord Meston; and arrived at certain conclusions which were adopted as the recommendations of the Commission. In the first place certain general principles were laid down in these words[1] :—

"(*a*) that where Income Tax is charged on the same income both in the United kingdom and in a Dominion the total relief to be given should be equivalent to the tax at the lower of the two rates of tax imposed;

(*b*) that there should be no interference either by this country or by a Dominion with the basis of assessment adopted by any other part of the Empire, and further that the settlement should be independent of increases and decreases in rate of tax, and alterations in the bases of assessment, whether here or in the Dominions;

(*c*) that so far as may be practicable, relief should be given before payment of tax;

(*d*) that so far as is possible, the adjustment should be made in the country where the taxpayer resides;

(*e*) that there should be no interpayments of tax between the Government of the United Kingdom and the Governments of the respective Dominions.

The specific recommendations of the Commission were[2] :—

"Firstly, that in respect of income taxed both in the United kingdom and in a Dominion, in substitution for the existing partial

1. Royal Commission on Income Tax, Report, para 69.
2. Ibid, para 70.

reliefs there should be deducted from the appropriate rate of the United kingdom Income Tax (including Super tax) the whole of the rate of the Dominion Income Tax charged in respect of the same income, subject to the limitation that in no case should the maximum rate of relief given by the United kingdom exceed one-half of the rate of the United Kingdom Income Tax (including Super-tax) to which the individual taxpayer might be liable ; and

Secondly, that any further relief necessary in order to confer on the taxpayer relief amounting in all to the lower of the two taxes (United Kingdom and Dominion), should be given by the Dominion concerned."

These recommendations have been accepted. The Indian Income Tax Act of 1922 which consolidates the previous legislation on the subject and introduces certain administrative improvements provides for relief in the matter of double taxation as under :—

Section 49 "(1) If any person who has paid Indian income-tax for any year on any part of his income proves to the satisfaction of the Income-tax officer that he has paid United Kingdom income-tax for that year in respect of the same part of his income, and that the rate at which he was entitled to, and has obtained, relief under the provisions of section 27 of the Finance Act, 1920, is less than the Indian rate of tax charged in respect of that part of his income, he shall be entitled to a refund of a sum calculated on that part of his income at a rate equal to the difference between the Indian rate of tax and the rate at which he was entitled to and obtained, relief under that section."

Provided that the rate at which the refund is to be given shall not exceed one-half of the Indian rate of tax.

(2) In sub-section (1)—

(*a*) the expression "Indian Income-tax" means income-tax and super-tax charged in accordance with the provisions of this Act ;

(*b*) the expression "Indian rate of tax" means the amount of the Indian income-tax divided by the income on which it was charged ;

(*c*) the expression "United kingdom income-tax" means income-tax and super-tax chargeable in accordance with the provisions of the Income-tax Acts."

Defects.

The combination of direct and indirect taxes brings about a greater burden on the middle classes in India than they ought to be called upon to bear. With the recent great increases in indirect taxes, for example, Customs (and Salt, till recently), on the one hand, and with the great enhancements in the direct tax on incomes which have taken place in recent years on the other, the burden on the middle classes is likely to press heavily. In spite of the raising of the income-tax minimum to Rs. 2,000, the large number of people who comprise the lower level of income-tax assessees are in an unfortunate position.

People of this class in other countries recieve special reliefs in connection with the operation of the income-tax. In England, for example, there is in the first instance, the system of differentiation by which incomes that are due to personal exertion, and incomes that are not so earned are distinguished, and the rate of tax on the former is smaller than that on the latter. Besides, there is an elaborate system of allowances and reliefs which may be summarised as under:—

(1) The method of graduation by means of which in the case of incomes up to a certain limit, an amount equal to the taxable minimum is deducted in calculating the tax. This abatement decreases in amount as the income increases, so that after a certain stage no abatement is allowed.

(2) The taxable minimum is greater in the case of a married man (£ 250), as compared with the bachelor (£ 150).

(3) Allowances are made to the extent of £ 40 for the first child, and £ 30 for each subsequent child. The amounts mentioned are deducted from the income, before calculating the tax.

(4) Allowances are given for dependent relatives, e. g. a widowed mother.

It is evident that in the absence of any such system in this country, the middle-class man is made to contribute to the state more than his due share. The force of this contention will be realised when we remember that marriage takes place at a comparatively early age in this country, and that on account of social customs the number of dependent relatives is usually large in the middle class.

Statistics of Taxes on Income.

The great growth in this source of revenue in recent years is visible from the following figures :—

	Crores of Rs.
First period	·08
Second period	·11
Third period	1·95
Fourth period	10·70
1921	18·48
1922	17·99
1923	19·07
1924	18·22

The statistics of Income-tax prove beyond doubt the general poverty of the large masses of the people. In 1861, when the taxable minimum was as low as Rs. 200, 1 in 140 paid the tax, that is, out of 140 persons 139 had less than Rs. 200 a year. In 1872, when the taxable minimum was Rs. 1000 it was found that only one in a thousand possessed that income. In 1898, when the Income-tax had been in existence for twelve years, and when the minimum was Rs. 500, 1 in 451 paid the tax. The following table shows the number of persons per one assessee in 1915 and 1918; in the former year the old rates were in operation and the taxable minimum was Rs. 1000, in the latter year the rates were higher, and the figures are worked out on the

supposition that the minimum was Rs. 2,000, though this was introduced a year later.

Number of persons per one assessee.

Province.		1915–16 (taxable minimum Rs. 1000).	1918–19. (taxable minimum Rs. 2000).
Bombay ...	...	397	691
Punjab and Delhi...	...	588	915
Burma ...	...	397	1116
Madras ...	...	723	1212
Assam ...	...	1051	1605
N. P. ...	...	1184	1983
Bengal ...	...	779	1988
C. P. and Berar ...	...	912	2017
Bihar and Orissa ...	...	...	3897

These figures show that the number of income-tax-payers in proportion to population is greater in Bombay than in the other Presidencies.

Again, it is interesting to find that out of these very few people who are able to pay the income-tax, a very large percentage possess very low incomes. The tables in the appendix bring out these facts in a remarkable way; e. g. in 1898, out of a total number of 490 thousand income-tax payers, 303 thousand had their incomes below Rs. 1,000 a year, and they contributed 35 lakhs of Rs. out of 192 lakhs to the revenue; in other words, three-fifths of the income-tax payers had their incomes below Rs. 1,000, and they paid less than 20 per cent. of the revenue.

In 1903, when the taxable minimum was raised to Rs. 1000, out of 240 thousand, 156 thousand income-tax payers had their incomes below Rs. 2000, and contributed 39 lakhs out of 177 lakhs to the revenue, that is, nearly two-thirds of the income-tax payers had their incomes below Rs. 2000 contributing only 21 per cent of the revenue.

In 1919, when the taxable minimum was raised to Rs. 2000, out of 185 thousand, 122 thousand income-tax payers had their incomes below Rs. 5000, contributing only

82 lakhs out of 876 lakhs to the revenue, that is, two-thirds of the income-tax payers had their incomes below Rs. 5000, and contributed only 9·3 percent. of the revenue.

Just as the above illustrations show that a very great proportion of the income-tax payers are on the lower level, it is evident from the tables in the appendix, that the number of people possessing large incames, say, above one lakh of rupees is very small compared either to the number of income-tax payers or to the population. This may be seen from the following figures:—

Year	number of income-tax payers with more than one lakh of Rs.	Amount of revenue contributed. lakhs of Rs.	Percentage of revenue contributed, to total revenue.
1898	233	16	8·3
1903	247	18	10
1919	1327	468	53·4
	with more than 5 lakhs.		
1919	287	349	39·8

It may be noted that the number of income-tax payers possessing large incomes as given above includes companies. The large figure for 1919, shows the inflated incomes on account of war profits, the company boom, and speculation. In order to make up for this discrepancy, the corresponding figures of those who had more than 5 lakhs have been given.

The Central Board of Revenue.

Before the Reforms, taxes on Income were collected by the Provincial Governments, mainly through the District officers. When after the Reforms, these taxes became an Imperial receipt, the collecting agency was gradually put under the control of the Central Government, and a separate staff was appointed. Under the Indian Income-Tax Act of 1922, we have special Income-Tax Officers for the districts; above them is the Commissioner of Income-

Tax at the Provincial headquarters, with Assistant Commissioners under him. At the head-quarters of the Central Government, a Board of Inland Revenue was constituted to look after the work of the Income Tax Department.

The Inchcape Committee suggested that the scope of this Board should be enlarged and the other Central sources of revenue like Customs, Salt, Opium, etc. should be put under its control. With this object in view, an Act was passed in February 1924, by which a Central Board of Revenue has been created. It is to consist of two members, and will be in charge of the administrative work connected with the collecting of Central revenues. It is believed that this will lead "to improved efficiency in administration, and will secure that efficiency at less cost to the tax-payer."

CHAPTER XIV.

INDIRECT TAXES :—(A) CUSTOMS.[1]

Tariff History up to 1874.

In order to have a connected idea of the Tariff policy of the Government of India, it seems best to review among other things the actual correspondence between the Secretary of State and the Government of India on this subject.

Up to the year 1846, there were considerable variations in the Customs laws of the different provinces. The principles on which the Customs duties of India ought to be regulated were laid down by the Court of Directors in their despatch of 22-4-1846, in consequence of the Report of the Committee of the House of Commons on Cotton cultivation. They were[2] :—(1) the abolition of duties on the exportation of the staple commodities of India, with the exception of indigo, for which exception special reasons were assigned ; (2) the abolition of the duties on the trade between the several presidencies of India commonly called the "port to port" trade, and (3) the abolition of the double duties on merchandise exported or imported in foreign vessels. The last two measures were carried out soon afterwards.

The situation was reviewed just before the Mutiny and in their despatch of 23-2-1857, the Government of India requested the Secretary of State to consider certain questions in connection with the tariff. But for a time, the Mutiny suspended all further discussion on the subject, till two years afterwards, when Lord Stanley addressed the Government of India on 7-4-1859 with reference to the financial difficulties caused by this event. The most

1. For a fuller discussion of this subject, the reader is referred to "Our Fiscal Policy" by the present writer. This chapter is based on Part I and III of "Our Fiscal Policy."

2. P. P. 81—Sees 2 of 1859.

pressing question at this time was how to restore equilibrium in the finances. The two alternatives were a reduction of expenditure or increase of revenue. The question of reducing the expenditure was considered by Lord Stanley to be "problematical;" he believed in the efficacy of "measures for the augmentation of revenue, either by the improvement of the existing sources, or by the development of new means of taxation,"[1] and he devoted this despatch to the consideration of the Customs duties and of the points raised by the Government of India two years before.[2] These points were (1) the equalisation of the duties on British and foreign manufactures and the assimilation of the duties on manufactured and unmanufactured goods, (2) the exemption from duty of all articles producing an inconsiderable amount of revenue, (3) the abolition of export duties and (4) the augmentation of import duties.

With regard to the first point, it was observed that the equalisation of the duties on British and foreign manufactures should be carried out by raising the duties on British goods to foreign rates, and that a distinction should be observed between articles imported in a state fitted for immediate use, and those imported in a wholly or partially unmanufactured condition. The second proposition to exempt from duties those articles on which the amount of revenue was very small, was negatived on the ground that little inconvenience was felt in the collection of the duty, which was levied on the invoices, and not as in England, on an inspection of the goods themselves. The suggestion for the abolition of export duties also did not meet with much favour. Though these duties were not defended in theory, they were supposed to be already so low, and India was believed to have such a great advantage over other countries in the production of the articles on

1. Ibid.
2. Despatch, 23-2-1857.

which they were levied that they would not offer any appreciable impediment to exportation. Not only this, but in view of the actual condition of the finances an increase in these duties on some articles, which were pointed out, was recommended. As we shall see later, Mr. Wilson following this advice levied an export duty on Saltpetre in 1860. With regard to the last question of raising the import duties, the following general principle was laid down—to levy on all articles, wholly or partially unmanufactured, a duty of 7½ per cent; on all manufactured articles, whatever their origin, which were habitually consumed by the general mass of the community, a duty of 10 per cent; and on such articles as were used only as luxuries by the richer classes, whether European or Indian, a rate of duty amounting or equivalent to 20 per cent. ad valorem.

Before these instructions reached India, Act VII of 1859 had become law. In their despatch of 25-5-1859, the Government of India pointed out that[1] the measures introduced by this Act very nearly corresponded with the views expressed by the Secretary of State, except in a few cases; for example, a lower rate of duty (5 per cent.) was placed on cotton twist and yarn; the same duty (10 per cent.) was levied on wrought and unwrought metals, and a higher duty was levied on beer, tobacco and spices. In the case of export duties there was a greater diversity, because with the exception of the duty on grain, no increase in the existing scale of export duties was made, and on the contrary raw silk and tobacco were included in the free list.

The new Act was the cause of many complaints on the part of interested persons in India. A memorial submitted to the Secretary of State by a body of English merchants of Bombay was typical of these complaints. Among the many evils of the new measure the greatest according to

1. Ibid. p. 16.

them, was the increase in the duties on cotton goods, and with reference to this the memorial expressed the hope[1] "that the commercial policy of Her Majesty's Government in India will not be inaugurated by a departure from those principles of free trade which are now recognised in England as the basis of commercial prosperity."

Mr. Wilson found the Customs Administration in this state when he arrived in India, and some of the points to which his attention was particularly directed, were to meet the objections and irritation excited by the Act of 1859. As a result alterations were made in the Customs Act in 1860, by which the duty upon cotton manufactures of all kinds was brought to one common rate of 10 per cent. Mr. Wilson, moreover found that the objections of the mercantile community referred rather to a new tariff of valuations the operation of which very materially modified the bare letter of the law. This led to the appointment of a committee to fix a uniform tariff of valuations for all India, on whose report certain changes were made which in effect reduced the duties to some extent.[2]

In his search for fresh resources, Mr. Wilson following the suggestion of Lord Stanley in 1859 to increase the export duties, imposed an export duty of Rs. 2 per maund on Saltpetre. This article was produced in other countries, and in Belgium, the means of making it artificially were discovered. The very high duty on Indian saltpetre stimulated this artificial production and ultimately the Indian trade in this article was strangled. It was too late when this duty was reduced in 1865 and 1866, and finally abolished in 1867. Indigo on which the former export duty of Rs. 3 a maund was still maintained suffered ultimately a similar fate.

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1. Ibid. p. 12.
2. P. P. 573 of 1860.

From 1860 to 1866 several minor modifications were introduced in the tariff. But of these modifications, those in Cotton Duties deserve notice.

We have seen that the Act of 1859 had created great opposition, chiefly on account of the Cotton Duties. Mr. Wilson tried to meet this by revising the valuations and by equalising the duties on cotton manufactures of all kinds, that is, he reduced the duty on piece goods from 20 to 10 per cent. and raised the duty on Cotton yarn from 5 to 10 per cent. This was not satisfactory to the English merchants; they, however, found the next Finance Member more congenial to their wishes.

In 1861 Mr. Samuel Laing reduced the duty on cotton twist and yarn to 5 per cent. This is the beginning of the policy of the Government of India[1] by which they indentified themselves with the interests of English Cotton Industry as against Indian. This controversy about Cotton Duties, which became so famous in future years, was already begun by interested English merchants in their opposition to the Act of 1859. It turns on the question whether Indian industries should be protected. Apart from English Economic Theories, which presuppose English conditions, and which, therefore, cannot be applied to Indian conditions without modifications, it is perfectly true to say that enlightened public opinion in India strongly believes in the protection of Indian industries. But the belief has been till recently of little avail, in impressing the Rulers, who professed to act on the other belief that because Free Trade was good for England, it was good for India. The truth is that Free Trade had been imposed upon India because it was convenient to England—because it assured a free and large market for the manufactures of England.

1. "The Government of India" in this connection denotes all those who were responsible for the management of Indian affairs, that is, the Secretary of State and the Parliament also.

In his budget speech for 1861, after haranguing the Council on the protective character of the duty on Cotton twist and yarn, and on the principles of Free Trade, Mr. Laing expressed his desire to reduce the duties on cotton goods and other manufactures, which he could not then carry out because the amount of revenue affected was very large. "But that is no reason", he said, "why I should not at once deal with yarn where the amount is small, the failure of the high duty palpable and the case urgent, because parties are actually building mills and importing machinery on the strength of the high duty".

His sympathy for the development of Indian manufactures was so great that he wanted to absolve them "from the fatal boon of a temporary and precarious protection". The finances of the next year (1862) gave him, as he believed, an opportunity to fulfil his benevolent intentions, and the import duties on piece goods and yarns were restored to their old rates of 5 and $3\frac{1}{8}$ per cent. respectively. It was during these years, however, that the Salt Duty was increased.

In 1867, in accordance with the recommendations of the Tariff Committee[1] of that year, important changes were introduced. Firstly, revised valuations of goods, specially of cotton piece goods and twist, (which were reduced), came into force. Secondly, a new classification of the articles subject to duty and the use of English measures and weights were introduced. But the third and most important reform was the removal to the Free List of petty articles which neither gave, nor were likely to give, any appreciable amount of revenue. This was brought about in the following way.

The principle upon which all former Customs Duties had been framed was to declare a few staple articles of trade free, and then to enact that all other articles shall be

1. P. P. 148 of 1867.

dutiable at a general rate, with special rates for a few specified articles. This of course rendered every conceivable petty article (not specially exempt) liable to examination and duty, and was the reverse of the principle adopted in England where articles liable to duty were specified and all others were left free. As a right step in this direction all articles which were not specially enumerated as subject to duty were left free. This measure, while it did not sacrifice any large amount of revenue, added greatly to public convenience, removed restrictions, and gave encouragement to several branches of trade. As a result, 39 articles were exempted from Import duties, and 88 from Export duties, or 97 articles, which were specified paid Import duties and only 9 paid Export duties.[1]

Among the changes in the rates of duty introduced in 1867, may be noted an increase of 8 annas on the richer class of wines, and a decrease of 8 annas on the poorer class ; an increase of 1 anna on the export of grain to make up for the loss due to the new system ; and the removal of the duty on Saltpetre.

In 1868, the importation of timber and wood was freed, and in 1869 the tariff valuations of Cotton goods and of the principal metals were again reduced by about 15 per cent. Some minor changes were made in 18 0 and 1871 ; in 1873 the export duty on wheat and in 1874 the export duty on lac dye were removed.

Of greater importance towards the end of the first period (1861-1874) was the real beginning of that movement by which under cover of Free Trade principles, the interests of Manchester were pushed forward at the expense of the Indian Cotton Industry. Before we trace the details of that movement, we shall consider the revenue results from Customs duty in the first period.

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1. These figures relate to those articles removed from the Tariff List or from the ad valorem list. Besides these, all other unenumerated articles were left free.

The average net revenue from Customs during this period was 2·2 crores a year, or only 6 per cent. of the total net revenue. After the Mutiny and during the whole of this period, the Government were in want of fresh sources of revenue. Customs Duties contribute a very large percentage to the income of all modern states. In almost all countries, except England, it serves the twofold purpose of adding to the revenue and protecting native industry. That the industries of India were in the most backward condition, that they were not able to stand in face of highly organised foreign competition, is not open to question. That if the Government of India were truly national in spirit, events would have taken a different course has been acknowledged on all hands. When the Land tax was kept at a high level, when Salt contributed 14 per cent. to the revenue, when the administration of justice had to be made dear, and when the Income tax proved a bitter failure, the expediency of adding to the resources of the State by an increase in the Import duties could not be seriously considered, because tho Free-Trade-conscience of Manchester began to quiver. Without going so high as France or the United States or many other countries, India could, by a moderate increase in Import Duties, have doubled her Customs revenue—this was the opinion expressed by Mr. Samuel Laing himself in 1872.[1] But, as we shall see in the sequel, the triumph of Manchester was more complete in the second period (1875-1898). On account of the difficulties caused by falling exchange additional taxes were imposed from time to time in the second period but we shall find that the General Customs Duties were abolished in 1882, and reimposed in 1894 when all other possible sources of revenue had been exhausted.

The Cotton Duties Controversy. Part I.

We have seen that the Tariff was revised in 1869, when the valuations of cotton yarn and piece goods and other

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1. S. C., 1872, Q. 7476.

articles were largely reduced. In 1874 the Manchester Chamber of Commerce addressed a memorial[1] to the Secretary of State pointing out the injurious effects of the duties on cotton goods and yarn and their protective character, and praying for their early removal. Later in the year, the Government of India appointed a Tariff Committee. The Committee was informed that "the Government of India does not impose or maintain Customs duties for the purpose of affording protection to any branch or class of industry, but for revenue purposes only", and their opinion was especially invited upon the representations of Manchester.[2]

1. Cf. P. P. 56 of 1876, p. 38. They complained (a) that the duties of $3\frac{1}{2}$ per cent. on yarns and 5 per cent. on British cotton manufactures imported into India were assessed on tariff rates fixed many years ago, when values ruled much higher than at present; (b) that the tax was found to be absolutely prohibitory to the trade in yarn and cloth of the coarse and low-priced sorts; (c) that the Chamber was informed that it was proposed to import Egyptian and American raw cotton into India (no duty being charged thereon) to manufacture the finer yarns and cloth, which would thus compete with goods received from England on which duty was levied; (d) that a protected trade in cotton manufacture was thus springing up in British India to the disadvantage both of India and Great Britain; and (e) that the duties increased the cost to the native population, or at least to the poorest of the people, of their article of clothing and thereby interfered with their health, comfort, and general well-being.

Soon after this, they reminded the Secretary of State that their main object and prayer was the total and immediate repeal of the duties themselves and added—"The statements as to the baneful operation of these duties on commerce, and on the best interest of Her Majesty's subjects, both in India and in England, are abundantly confirmed by the latest advices from Bombay, which show that, under the protection extended by the levying of duties on imports to the spinning and weaving of cotton yarn and goods in India, a large number of new mills are now being projected, and the revenue from import duties will be consequently diminished. The impost is therefore defeating its own object, as well as inflicting an injustice on the consumer and importer."

2. Ibid. p. 39.

Among other recommendations, the Committee referring to the Cotton duties pointed out that (1) India had certain natural advantages for producing goods of low quality which would secure the trade in them to her even if the duty was removed; (2) that the duty paid by the particular goods which had to meet Indian competition was very little compared to the whole Cotton Import duty, and (3) that therefore the demand for abolition of the entire duty was not justified.[1] The Committee proved that there was no competition between the Indian and English cotton industries; the former produced coarse fabrics, whereas the latter produced finer fabrics; and that the English trade did not suffer. They rejected the alternative proposals of removing the duty on coarse goods only, and of an Excise duty on the products of Indian mills.

The action which the Government of India took on the recommendations of the Committee may be briefly stated:—(1) the tariff valuations on cotton goods were reduced involving a loss of Rs. 8,80,000 to the revenue, (2) the export duties on grain other than rice, seeds, oil,

1. Ibid. pp. 48-64. Cf. The following passage from the Committee's report:—"The Committee think it more to the purpose to consider what proportion the particular goods which have to meet Indian competition bear to the whole cotton import duty, and how far this competition justifies the demand for abolition of the en duty which has been brought forward. The Indian mills can m mule twist up to 32's, and water twist up to 20's, as also longcloths, T cloths, drills, domestics, jeans, and sheeting. The prospect of the finer kinds of yarn and cloths being made, with profits or success, is notoriously so remote, and the enterprise so doubtful, that it is quite unnecessary to take it into present calculation. The duty levied in Bombay in 1873-74, upon the similar Manchester goods which have to stand Indian competition was about 2 lakhs of rupees. If the total duty on such goods paid in all India be taken, though the mills beyond the Bombay Presidency, are, as yet, comparatively unimportant, it would barely exceed 4 lakhs. The demand that, because one class of goods, represented by 4 lakhs of duty in all India, has in one part of India, to meet a local competition, the Government shall remit 77 lakhs which competition cannot affect, appears to the committee quite unreasonable, and it is unnecessary even to enquire whether the finances could afford the remission."

spices, tanned hides, and cotton goods were removed, leaving only three articles on which export duty was levied—Indigo, Rice and Lac, (3) the general rate of import duty was reduced from 7½ to 5 per cent except on articles which were subject to a special duty ;[1] (4) with regard to the cotton duties, the findings of the Committee were emphasized, but with a view "to prevent what little evil might be though to exist from assuming through their neglect undue proportions" a 5 per cent. duty was imposed upon raw cotton not the product of Continental Asia or Ceylon. The duty would thus fall on American or Egyptian raw cotton, which the Bombay mills might be tempted to import, in order to manufacture finer fabrics in competition with Manchester.

The instructions[2] of Lord Salisbury which dictated a contrary policy were received a few days too late to be

1. Ibid. P. 46. The articles subject to special duty were:—

Arms, ammunition and military stores	...10 per cent.
Cotton twist	... 3½ „ „
Liquors	... Various rates.
Iron, enumerated sorts and railway materials	1 per cent.
Opium	... 24 Rs. per seer.
Salt and Salted fish ...	... Various rates.

2. Ibid. pp. 3–4. Despatch, Separate Revenue. No. 6 of 15 July 1875. "If it were true that this duty is the means of excluding English competition, and thereby raising the price of a necessary of life to the vast mass of Indian consumers, it is unnecessary for me to remark that it would be open to economical objections of the gravest kind. I do not attribute to it any such effect; but I cannot be insensible to the political evils which arise from the prevalent belief uppon this matter. The gradual transfer of the Indian trade from the English to the Indian manufacturer which appears likely to take place, will be attended with much bitterness of feeling on the one side, and with keen anxiety for the security of an unexpected success upon the other. The English manufacturer will press with increasing earnestness for the abandonment of the duty to which he will impute his losses; and in proportion to his urgency the Indian manufacturer will learn to value it.

It is impossible to believe that under these conditions the duty can be permanently maintained. The entire acceptance of the system of free trade by England is incompatible with the continuance of an exception apparently so marked. Parliament, when its attention is drawn to the matter, will not allow the only remnant of protection within the direct jurisdiction of the English Government to be a protective duty which, so far as it operates at all, is hostile to English manufacturers".

considered with reference to these measures. He was naturally indignant when he was informed of these proceedings, and he hastened to express his disapproval first by telegram and then in his despatch of 11th November 1875.[1] The policy enjoined upon the Government of India may better be given in the words of its author:—

"In my despatches noted in the margin, Your Excellency has already been informed that the import duty on cotton manufactures should, in the opinion of Her Majesty's Government, be removed whenever the conditions of your revenues shall enable you to part with it. On general principle it is liable to objection, as impeding the importation of an article of first necessity, and as tending to operate as a protective duty in favour of a native manufacture. It is thus inconsistent with the policy which Parliament, after very mature deliberation, has sanctioned, and which, on that account, it is not open to Her Majesty's Government to allow to be set aside, without special cause, in any part of the empire under their direct control. Financial exigency may be a just ground for maintaining a duty which cannot be reconciled with the general policy of this country; but the large remissions you have made in other import duties, affecting articles of a less primary importance, have impaired the validity of this plea.

"In the presence of other causes operating more powerfully upon the cotton trade, the effect of the duty at the present moment in artificially raising the price of cotton goods cannot be accurately estimated. But it has other effects, of which the evil is palpable, and tends to increase. It offers a false encouragement to the Indian manufacturer, which tends to divert him from the efforts by which his success can alone permanently be secured; and it places two manufacturing communities, upon whose well-being the prosperity of the empire largely depends, in a position not only of competition, but of political hostility to each other. The Indian manufacture is growing in strength by the help of resources which fiscal legislation cannot affect. The abolition or reduction of the duty will not injure it though passing apprehensions may be excited by such a

1. Sir E. Perry and Sir H. Montgomery, members of the India Council recorded minutes of dissent against the telegram and the despatch. Cf Ibid. pp. 69-71.

measure. The impost is too much at variance with the declared policy of this country to be permanently upheld; but if the task of dealing with it be long postponed it will be the subject of controversy between interests far more powerful and embittered than those that are contending over it at the persent time. On these grounds I am of opinion that the recent opportunity when you had resources available for the reduction of import duties, should have been taken for reducing this duty with a view to its ultimate abolition".

The Secretary of State attached such an importance to this subject that he sent his Under-Secretary, Sir Louis Mallet to India, to confer with the Government of India not in regard to their fiscal legislation as such, but with a view to ascertain how far it was practicable to agree with them upon a mode of giving effect to his wishes.[1] It is of interest to note that the duty on American and Egyptian raw cotton was not approved by the Secretary of State.

In replying to these injunctions, the Government of India justified their action and urged that the financial position was not such as would enable them to reduce the cotton duties. They further complained that interference from England in their fiscal legislation was without a precedent and that while the desirability of removing this duty was pressed upon them for political reasons, they did not consider such an action consistent with the interests of India.[2]

But the Secretary of State remained unconvinced. In his despatch of 31-5-1876, after discussing the whole subject over again, he came to this conclusion :—"Whether, then, the question be regarded as it affects the consumer, the producer, or the revenue, I am of opinion that the interests of India imperatively require the timely removal

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1. Cf. P. P. C. 1515 of 1876 pp. 13-14. Sir Louis Mallet could not do anything, for he fell ill in Calcutta, and returned soon after.

2. P. P. C. 1515 of 1876, pp. 11-12; despatch, 25-2-76, Cf. paras 48, 53 & 54.

of a tax which is at once wrong in principle, injurious in its practical effects, and self-destructive in its operation." It was laid down that the abolition of these duties should have priority over every other form of fiscal relief to the Indian taxpayer.[1]

The carrying out of this policy fell into the hands of a new Viceroy (Lord Lytton), and a new Finance Member, Sir John Strachey, who was perhaps more bent upon it than those who directed the affair from England. Upto now it was an issue between the Government in India and the Government in England. The latter had prevailed, and the former were now ready to move even faster than required. In his Financial Statement for 1877, Sir John Strachey regretted that financial difficulties caused by the famine where so serious that he could not sacrifice any source of income. He regretted this because he was not able "to carry out the orders of H. M.'s Government to which this Government owes a loyal and unhesitating obedience," and because he himself was no recent convert to the policy which had been laid down. But though he could not act at this time, he definitely sounded the death-knell not only of the duties on cotton, but also of Import

1. Ibid. p. 36. Three members of the India Council voted against this despatch—Sir F. Halliday, Sir B. H Ellis, and Sir E. Perry; the first two wrote dissenting minutes. As a consequence of these proceedings, it may be pointed out that an important change in constitutional practice was introduced. Henceforward, legislative measures of all kinds, especially those relating to Finance, were to be first approved by the Secretary of State before being submitted for the formal sanction of the Legislative Council in India. Minutes of dissent against this were recorded by two members of the India Council:—Sir E. Perry & Sir H. Montgomery. Cf. India Office despatch, (Legislative 9) of 31-3-74; I. O. despatch (Legislative 51) of 11-11-75; Government of India, despatch (9 of 1876) of 17-3-76; I. O. despatch (Legislative 25) of 31-5-76; and P. P. 244 (H. of L) of 1876.

duties in general.[1] This second result was a corollary from the first. The duties on cotton formed the most important portion of the Tariff and if they were removed, it would not be possible to collect an insignificant amount of revenue from many articles at great expense. From the policy thus laid down half the members of the Viceroy's Executive Council recorded a strong minute of dissent.[2]

1. Cf. F. S., 1877, Sir John Strachey said:—"I am not ashamed to say that, while I hope that I feel as strongly as any man the duties which I owe to India, there is no higher duty in my estimation than that which I owe to my own country. I believe that our countrymen at home have a real and very serious grievance and that it is no imaginary injury against which they complain: I know that Your Excellency has resolved that the Government of India shall not shirk this business, and there need be no fear that it will be regarded in any half-hearted spirit. Your Excellency took the earliest opportunity which could be found, after you had assumed the Office of Viceroy, to declare publicly your views upon this subject, and if I say no more regarding it now, it is mainly because I feel sure that your Exellency will not lose the present opportunity of publicly declaring those views again. For myself personally, if I had not confidently expected to take part in this great reform, I doubt whether anything would have induced me to accept my present office, and I trust that I may still have a share in the performance of a task which I look upon as one of the most important which this Government has before it

"......The truth is that cotton goods are the sole article of foreign production which the people of India largely consume, and there is no possibility of deriving a large Customs revenue from anything else. I do not know how long a period may elapse before such a consummation is reached, but, whether we see it or not, the time is not hopelessly distant when the ports of India will be thrown open freely to the commerce of the world."

2. P. P. 241 of 1879, pp. 4-5. The minute was signed by Sir Arthur Hobhouse, Sir E. C. Bayley, and Sir Henry Norman. Among other reasons for dissenting from this policy, they gave the following two:—(1) Because we think that, whenever the possession of a surplus enables it to reduce duties at all, the Government should carefully consider whether it is not desirable to operate upon other duties, *e. g.* the salt duties, the sugar duties, or the export duties, in priority to the import duties; in our judgment, each of these three items of revenue requires alteration far more urgently than do the duties on cotton goods. (2) Because independently of pure financial questions, we think it impolitic to disregard the fact that the repeal of duties on cotton goods in India, in preference to other injurious taxes, is viewed with great suspicion and dislike by a large portion of the educated natives of this country, and is likely to cause much irritation among them.

In July 1877, the House of Commons passed a Resolution without a division to the following effect :—" That in the opinion of this House, the duties now levied upon cotton manufactures imported into India, being protective in their nature, are contrary to sound commercial policy; and ought to be repealed without delay, so soon as the financial condition of India will permit."

In forwarding this Resolution to the Government of India, Lord Salisbury insisted that if it was not possible for them to give effect to it in the coming year, they should at any rate proceed at once with " the repeal of the duty of 5 per cent. on foreign raw cotton imported into India, and the exemption from import duty of the lower qualities of cotton manufactures, upon which the present tax is incontestably protective, not only in principle but in fact, and the value of which for revenue purposes is wholly insignificant."[1]

Effect was given to these instructions in March 1878, in the Financial Statement for 1878. Though it was found that the finances were not in such a condition as to give up any source of existing income, a notification was issued by which certain kinds of coarse goods with which Indian manufactures were supposed to compete successfully were exempted from duty. These were (1) unbleached T cloths under 18 reed, jeans, domestics, sheetings and drills not containing finer yarn than what is known as 30s., (2) Yarn of the qualities known as 20s. water and 32s. mule and lower numbers. The duty on raw cotton was also removed.

But the appetite of the Manchester Chamber of Commerce was not satisfied. They pointed out[2] that there were other kinds of goods made from 30s. and

1. Ibid, pp. 6-7. Despatch 30-8-77.

2. P. P. 241 of 1879, pp. 14-15. Resolution of the Manchester Chamber of Commerce and letter to the Secretary of State, 27-3-78.

coarse yarns which were not exempted, and they further asked that yarns of higher quality up to 25s. water and 42s. mule should be exempted. This demand was followed by the appointment of a committee to reconsider the whole situation. In accordance with the views of this Committee[1] all cotton goods containing no yarn finer than 30s. were exempted from duty in March 1879. It was believed that this measure would remove the directly protective character of those duties. The indirect protection which, it was supposed, enabled the Indian-made coarse goods to displace, by their cheapness or other qualities, imported finer goods, still remained. It was, however, not possible to deal with this question except by the abolition of duties on all cotton goods, and financial considerations did not permit of such an action.

This measure involved a loss £ 200,000. This loss was accepted notwithstanding the fact that there was a deficit, that the Afghan war was going on, that the exchange was falling, and that the recent arrangements for the protection of the country against famine had to be suspended.[2]

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1. Ibid pp. 15-29. The second demand relating to yarn was found unreasonable.

2. Cf. F. S. 1880 para 74. Also Cf. Fawcett "Indian finance" pp. 4, 12, 75-77, 88. The following extracts from Fawcett pp. 75 and 85 will be of interest. "No one for a moment will even pretend to say that, in the present state of Indian finance, the idea would have been entertained of remitting these duties if the finances of India were administered in the interest of that country alone."—"It may be urged that India, in the present state of her finances, cannot possibly do without the additional revenue which is obtained from the taxes imposed for the creation of a famine fund. But if this be so, then it is far better at once to recognise the fact that these new taxes have not been applied to the creation of a famine fund, but that they are required for the general purposes of the Indian Government; amongst these purposes it is particularly to be noted that the one which is considered of most pressing urgency is to reduce the import duties on cotton goods."

The one essential condition in the pledges given in connection with the removal of these duties was that it should be carried out only when the finances were in a prosperous condition. It was mainly on this and other grounds that this action was opposed by the majority of the Viceroy's Council.[1] Act 33, Victoria, chapter 3, sec. 5.

1. They were—The Hon. W. Stokes; the Hon. A. R. Thompson; Sir A. J. Arbuthnot, and Sir Andrew Clarke. They recorded very important minutes of dissent, from which the following extracts may be read with interest. (Cf. P. P. 69 of 1879, H. of L.). The Hon. W. Stokes said—"I dissent from the proposal to exempt from import duty cotton goods containing no yarn of a higher number than thirties:—Firstly, because the financial condition of this country is so deplorably bad that we cannot afford to lose even twenty lakhs a year, which sum is said to be about the annual cost of the proposed exemption. We have spent our Famine Insurance Fund, or what was intended to be such. We are carrying on a costly war with Afghanistan. We may any day have to begin one with the king of Burma. Our estimates show a deficit. We have now to borrow five crores in India and we are begging for two millions sterling from England. Our income is almost stationary. Our opium revenue is precarious. And our difficulties arising from the depreciation of silver seem, for some years at all events likely to increase rather than diminish. We have exhausted all gainful sources of indirect taxation and for every tax we surrender we must, therefore, impose a direct tax. Knowing as I do, the horror (in my opinion the reasonable horror) of new direct taxation, which is felt by the natives of India, I cannot think it wise to do anything which must lead to its imposition. It is painfully clear that the time has not arrived for even a partial fulfilment of the undertaking that the import duty on cotton goods should be repealed as soon as the financial condition of India permitted............Fifthly, because the free admission of cotton goods would probably destroy a promising and useful local industry and in the absence of competition, the Manchester manufacturers would practically compel the people of India to buy cotton cloths adulterated, if possible, more shamefully than such goods are at present. The cost of the clothing of the people would thus be increased rather than lessened, and the arguments founded on the injurious effect of an imaginary protection would lose the little force that they ever possessed.

gave the Viceroy discretionary power to overrule the Council when the interests, the safety or the tranquillity of British India were essentially concerned. It was after exercising this extraordinary prerogative and setting aside the opinion of the majority of his council that Lord Lytton introduced this measure. It is difficult to understand how

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Sixthly, because nothing will ever induce the people of India to believe that the proposed exemption, if made, has been made, as no doubt we shall say it has, solely in their interest. They will be convinced by their newspapers, (which are read aloud in every bazar) that it has been made solely in the interest of Manchester and for the benefit of the Conservative party, who are, it is alleged anxious to obtain the Lancashire Vote at the coming elections. Of course the people of India will be wrong; they always must be wrong when they impute selfish motives to the ruling race. Nevertheless, the evil political result likely to follow from this popular conviction should not be ignored, and should, if possible, be avoided.

Lastly, I object to the way in which the proposed change in the law is to be effected. The Viceroy, as I understand, intends to over-rule the majority of his Council and to make the proposed exemption by Executive order, in the Revenue Department, under section 23 of the Sea Customs Act. Such an order is, no doubt, authorised by the terms of that section. But the Indian Legislature, in conferring on the Executive, power to make such exemptions, never intended that it should be exercised so as to make suddenly a vast change in our law, affecting not only the importers and consumers of the particular class of goods dealt with, but the taxpayers of India in general; a change that will not only seriously diminish our present revenue, but force the hand of the Legislative Council by compelling them to impose new direct taxation. The power to exempt goods from Customs duties was originally conferred by Act XVIII of 1870, and was merely intended to relieve the Executive from the useless and troublesome formality of coming from time to time to the Indian Legislature to make in the tariff petty alterations which that Legislature, if applied to, would have made at once. The change now proposed is of a very different character. I have reason to think that it would never be sanctioned by the Legislative Council, unless, indeed, arguments were brought forward in its favour far more cogent than those that I have heard. The proposed exemption of cotton goods, if made

this object came to be magnified in the Viceroy's eyes so as to warrant the use of his absolute power.

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by mere executive order will thus resemble what lawyers call a fraud on the power; and there is, unfortunately, no court of equity to relieve the people of India against it.

Referring to the remarks of the Finance Member, Sir John Strachey, Sir A. J. Arbuthnot wrote in his minute as follows:—"The argument that because our difficulties are so great it will therefore do no harm to add to them to the extent of £200,000 is the sort of argument that I should not have been surprised to hear from the lips of an embarrassed spendthrift, but which seems to me utterly out of place in a resolution dealing with the finances of an empire. It betrays, in my opinion, a disregard of the first principles of financial economy, which is equally certain to lead to disaster whether it be applied to the fortunes of an individual or to the finances of a state, and which cannot be too emphatically condemned." He further wrote—"By a tacit, but well understood, compact, India was excluded from the arena of party politics in the House of Commons. Now for the first time there is a prevalent belief that this understanding has been departed from. A measure seriously affecting the finances of India has been, and is being, pressed upon Parliament by a powerful section of the English mercantile community, and the general opinion is, that, that pressure has so far produced an effect, that at a juncture of the gravest financial difficulty and anxiety the Government of India has been impelled to incur a sacrifice of revenue which the most ordinary considerations of financial prudence should have led it to retain with the certainty that the present concession will only encourage further pressure until the whole of the particular branch of the state revenue which has been the subject of attack shall have been abandoned. And this has been done at a time when we are engaged in war; when we have very recently emerged from a calamitous famine; when we have in consequence re-imposed direct taxation of a notoriously unpopular, and, in its practical working often of an oppressive description, which, having been raised for a special purpose, we are forced to divert to other purposes; and when the Government of India has scarcely recovered from the odium which it incurred by its legislation restricting the license of the vernacular press."

When these proceedings came for consideration before the Secretary of State in council, a similar event occurred. The Council was equally divided[1] and it was by his casting vote that the Secretary of State recorded his approval of the action taken by the Viceroy. Both the Viceroy and the Secretary of State, however, had the satisfaction that their high-handed action was unanimously approved by a higher authority—the House of Commons, which passed another Resolution in April 1879 to the effect that "the Indian import duty on cotton goods, being unjust alike to the Indian consumer and the English producer, ought to be abolished; and this House accepts the recent reduction in these duties as a step towards their total abolition, to which Her Majesty's Government are pledged."

Fresh anomalies in the working of the cotton duties were soon revealed.[2] One of the chief consequences of the exemption given in 1879 was to give a strong inducement to English manufacturers to supplant finer by coarser classes of goods. In that year the difficulty was caused by the fact that while certain classes of goods were admitted free, other large quantities of goods of almost precisely the same character in everything but name were liable to duty the difficulty now was not due to competition between Lancashire and Indian mills, but to the competition amongst Lancashire manufacturers themselves, to take the fullest advantage of the boon conferred upon them by the Government of India. The trade in the exempted goods increased, and that in the taxed goods decreased, with a consequent loss to revenue. The estimated loss of £150,000 for 1879 proved to be £200,000 and a loss of £250,000 was expected in 1880. Sir John Strachey was indeed right when

1. Those against the measure were:—Mr. Dalyell; Sir B. Ellis; Sir F. Halliday; Sir R. Montgomery; Sir W. Muir; Sir H. Norman; and Sir E. Perry. Cf. P. P. 392 of 1879.

2. Cf. F. S. 1880, paras 72-8.

he observed that the "Cotton duties are, in my opinion, virtually dead." He admitted that the state of things which was deliberately brought about was "anomalous and objectionable." The complete solution of the question, however, involved the abolition of the remaining duties on cotton goods, which would cost £600,000 in addition to the £250,000 which had already been given up. The Government were not prepared to incur this loss but he looked forward with confidence to the almost total abolition of customs duties in India, "when the ports of India will be thrown open freely to the commerce of the world."

A step in the right direction was taken this year (1880-81),[1] so far as the export duties were concerned. We have seen that since 1875 the only export duties that existed were those on Indigo, Lac and Rice. In view of the serious danger to the indigo industry from the competition of chemically prepared substitutes, the duty on Indigo was removed. Lac produced a very small amount of duty and it was also exempted. The duty on rice was retained not because India had a monopoly of the trade in Rice, but because she had something approaching to it and because so long as this continued, the duty could be retained without injury to Indian interests.

The Financial Statement for 1882 is an important landmark in the history of Indian Finance in many ways. The previous year had closed with a surplus of 1½ m. £. On the existing basis of taxation the year 1882 was calculated to yield a surplus of more than 3m. £. This gave the Finance Member, Major Baring (afterwards Lord Cromer) an opportunity to introduce several reforms. The objectionable Patwari Cess in the North West Provinces was removed. The position of the Subordinate Civil Services was improved. Fresh arrangements were made in connection with Provincial Finance. But of greater

1. Cf. F. S. 1880, paras 82-88.

importance was the equalisation of the duties on Salt[1] at Rs. 2 a maund, and the total abolition of the Cotton Duties and the General Import Duties.[2]

The effects produced by the recent changes in the Tariff were found to be objectionable in many ways. There was a distinct tendency of an increase in the imports of the exempted goods and of a decline in those of the dutiable goods. (1) From the point of view of administrative convenience, it was found very difficult to distinguish between dutiable and duty-free goods. (2) From the point of view of fiscal principle it was found that (*a*) though direct protection to Indian manufacture[3] no longer existed, an artificial stimulus was given to one class of Manchester goods against another. (*b*) Moreover, in certain special cases, goods containing some amount of fine yarn were imported duty-free, whereas the Indian mills had to make such goods out of yarn which paid duty. (*c*) Again, it was unjust to tax white and coloured goods, when grey goods were exempted.

With reference to the General Import Duties, it was pointed out that they were also protective, that they yielded only a small revenue, that they taxed some of the raw materials of industry, that there were several practical difficulties in enforcing them, and that they interfered with trade without bringing a fair amount of revenue. The logical conclusion from this was that "the arguments in favour of abolishing the General Import Duties are even stronger than those which may be adduced in respect to the abolition of the Cotton Duties. The maintenance of the former, if the latter are to be abolished would, from every point of view, be open to great objection."

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1. At a cost of 1. 4 m. £.

2. At a cost of 1. 2 m. £.

3. It could have been argued that some protection to the Indian handloom industry existed.

The Government had a a surplus. It was possible to remit taxation. What form should that remission take was the question. But the question was neither considered nor discussed. The Government had come to the above conclusion in connection with the Import Duties ere long, and they were only seeking an opportunity to carry out their long-cherished wishes. It was accordingly resolved to abolish the Cotton Duties and the General Import Duties. The special duties, namely, those on wine, beer, spirits, and liquors, as also those on arms and ammunition, Salt and Opium, remained.

The triumph of Free Trade principles was never more complete. The ports of agricultural India were more open to the industries of the world than the free ports of England herself. The competition of manufactured goods had by this time killed the village industries of India. The village craftsman was forced to become an agricultural labourer. The few industries which were beginning their precarious life were now "free" to compete with the advanced industries of England or the protected industries of the rest of the world.

With her economic organisation thus disturbed, India was denied the only remedy adopted by most modern countries—a protective tariff. This would also have added to the financial resources of the country. The reduced Salt Duty of Rs. 2 a maund still pressed heavily upon the Indian peasant. The anomalies of the License Tax were admitted by the Government themselves. The Land Cesses added to the already heavy impost on the Land.

The Cotton Duties Controversy. Part II.

The end thus brought about after hard struggles was to be maintained with equally hard struggles. And when the hand of the Government was at last forced, the same tale of convenient and rigid adherence to theory was repeated with a total disregard for other more important considerations.

It was not long before the finances were again in deficit. The increased military expenditure from 1885, and falling exchange, combined with a reckless haste in the construction of Public Works made it necessary for the Government to find new sources of revenue. The License Tax was turned into an Income Tax (1886.) The Salt Duty was raised to Rs. 2–8 per maund (1888.) The Famine Grant was now and again suspended. The Provinces were frequently asked to contribute. But so long as there was the slightest possibility of getting money from any other quarter, Import Duties were to be held back in sacred horror. This position was maintained with admirable tenacity for 12 long years of difficulty and financial anxiety.[1]

As the year 1882 is memorable for the abolition of the Import Duties, the year 1894 is equally memorable for the re-imposition of those duties. Speaking in the Legislative Council on 1st March 1894, the Finance Member showed that he was faced with a deficit of $3\frac{1}{2}$ crores of rupees, which he attributed direcly or indirectly to the fall in exchange.[2] The Herschell Committee[3] on Indian Currency had recently expressed an opinion in favour of Import Duties with certain reservations, and the Government of India found in them the only available additional source of revenue in their present

1. A special import duty of 5 per cent. was levied upon petroleum in 1888, the year in which the Salt Duty was raised to Rs. 2-8. But in this case the commodity came not from England but mainly from Russia and America. Moreover, it could be easily argued that the production in India did not compete with foreign production. The Finance Member said—"I have only to say that we want money, and that, whatever may be the case regarding other imports, petroleum is an article in respect of which most of the theoretical objections to an import duty disappear."

2. Cf. P. P. 143 of 1894.

3. Report, para 39.

embarrassments. They therefore proposed to levy Import Duties at the rate of 5 per cent. But at the bidding of Her Majesty's Government, Cotton Yarns and Goods were to be excluded from among the articles liable to duty.

This unjust exemption in favour of Manchester raised a storm of protest in the country and in the Legislative Council. The Governor-General in Council were unanimously opposed to it, but were powerless. The Finance Member did not admit the validity of the objection made to the duties on cotton on the ground of protection and he even asserted that if any industry in the world deserved protection, it was the cotton industry of India.[1] It is of interest to note that against this arbitrary decision of the Secretary of State six members of the India Council recorded minutes of dissent.[2]

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1. Cf. P. P. 143 of 1894. pp. 50 and 56.

2. They were:—Sir A. Arbuthnot; A. Alison; D. M. Stewart; H. Rawlinson; C. A. Turner; and A. C. Lyall. Sir A. Arbuthnot wrote as follows:—"I desire to record my dissent from the decision of the Secretary of State excluding duties upon cotton goods from the Import duties which the Government of India have been authorised to impose in the present very grave financial crisis. The decision to which I refer was passed in opposition to a unanimous vote of the Council of India, and to the views of the Governor General in Council. It is, in my opinion, open to very serious objection, both upon financial and political grounds. It compels the Government of India, not only to suspend the Famine Insurance Fund, but to budget for a considerable deficit, the amount of which, for all we know, in the present condition of the silver question, may possibly assume much larger proportions; and it practically announces to the people of India that, however great may be their needs, no measure for their relief will be sanctioned which may be likely to offend any powerful English interests. In 1894, as in 1879, the interests of India are to be sacrificed to what the people of India regard as Parliamentary considerations, and this is done at a time when India is in a condition of political unrest which demands

But the difficulties of the Government of India were not over, and it was found that at no distant date, fresh sources of income may have to be provided. With reference to this the Secretary of State laid down certain instructions in his despatch[1] (No 65 Revenue) of 31-5-1894. They were to the effect that if the Government should be forced again to consider the question of imposing duties on cotton manufactures, they should ascertain what classes of imported cotton goods came into competition with Indian manufactures of the same kind, and determine by what means any duties that might be imposed, might be deprived of a protective character.

Accordingly, the Finance Member, the Hon. Mr. Westland, made a detailed investigation of the whole question and came to the following conclusions[2] :—

"(1) Of the manufactures of India, quite 94 per cent. is absolutely outside the range of any competition with Manchester being the coarser quality of goods (24s. and under) which Manchester cannot pretend to supply so cheaply as India. (2) Manchester has an absolute monopoly of the finer qualities of goods, but the bulk of its trade consists in piece-goods of about 30s., and in yarns somewhat finer.

(3) Of goods of the counts 26 and over, India can produce them under difficulties and in small quantities, and to the extent to which

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exceptional watchfulness on the part of her rulers, and which certainly ought not to be stimulated by any action of theirs.

Such a measure as that which has now been resolved on is certain to produce discontent in India, and to excite an agitation which on every ground it is very desirable to avoid, for, if there is one thing certain in connection with the very complicated machine which is called the British Empire, it is that there is an essential solidarity between the interests of India and the interests of Great Britain, and that no measure which furnishes ground for discontent on the part of Her Majesty's Indian subjects or which may tend to impair their confidence in the justice of British rule, can be regarded as compatible with the welfare of the Empire."

1. P. P. O. 7602 of 1896.
2. Ibid. pp. 11–12.

it produces them it is in direct, but obviously somewhat unequal, competition with Manchester, that is, it is producing goods of a class that Manchester also lays down in India.

The values may be roughly stated as follows :—

	m. Rx.	m. Rx.
Imports from United Kingdom into India—		
Yarns	2·6	
Piece-goods	22	
	——	24·6
Mill manufactures in India—		
Piece-goods—		
Exported	·6	
Consumed in India	3·4	
Yarns, excluding those woven into piece goods—		
Exported	6	
Consumed mostly by handlooms ...	4·6	
	——	14·6

"Six per cent of this amount, or say Rx. 860,000 worth of produce may be considered as a possible competitor in the field of trade that is occupied by Manchester, that is, not only with Rx. 24,600,000 worth of goods which Manchester sends yearly to India, but also with large quantities which Manchester sends to China, Japan and the East Coast of Africa, to which places India might (though as a matter of fact it does not) send part of its total competitive traffic of Rx. 860,000. The exports of Manchester to the East appear to be nearly 30 millions sterling, say Rx. 45,000,000. So that India gets less than 2 per cent. of the market for the finer goods, of which Manchester gets 98 per cent. The only possible harm that can arise to Manchester if we were to impose an import duty of 5 per cent. without levying a countervailing duty on Indian manufacture, is that in this narrow margin—the Rx. 860,000 of Indian manufacture—the Indian mills, having no corresponding burden of taxation, might be able to absorb a larger share of the whole trade. The probability of their actually doing so may be judged from what I have above said of the greater facilities and the greater inducements that Indian mills have for extending the coarser rather than the finer qualities. But even

should the effect of this advantage be to treble the existing production, it would take away from Manchester no more than Rx. 1,700,000 worth of trade out of its present total of Rx. 24,600,000 in India ".

With these conclusions before him, and with a view to give effect to the instructions of the Secretary of State the Finance Member recommended that import duties be imposed at the rate of (a) 5 per cent. ad valorem on all cotton piece-goods; (b) 3½ per cent. ad valorem on all cotton yarns of counts above 24; and (c) that an excise duty of 3½ per cent. ad valorem be levied on all machine-made cotton yarns, produced at mills in British India of counts above 24.[1]

The Government of India requested the Secretary of State to accept these proposals as meeting the conditions prescribed by him and recommended them as the basis of legislation, if it should be necessary to strengthen the financial position during the course of the year. But in the meanwhile, the Secretary of State had given renewed pledges to the House of Commons[2] to the effect that cotton duties in India shall not be sanctioned if they had even the shadow of protection about them. In spite of the conclusive evidence produced by the Finance Member, the Secretary of State, therefore, doubted whether[3] a 3½ per cent. duty on yarns used in Indian fabrics might not to some extent protect Indian manufactures against imported goods of the same description, paying a 5 per cent. duty, and whether counts above 24 was the right line at which duty on yarns should begin. Accordingly, he modified the above proposals by raising the duty on yarns from 3½ to 5 per cent. and by asking that it should begin with counts above 20, instead of 24.

1. Ibid p. 7. Despatch 7-8-1894.

2. See debate on 27 July and 16 August 1894.

3. Ibid, p. 14. despatch 13-12-1894.

By this time it was found that it was not possible to pull on without the aid of the Cotton Duties, and therefore legislation embodying these injunctions was brought for the sanction of the Council. On the one hand, the Government of India showed their utter helplessness in the matter. On the other, some of the members spoke with indignant protest, which was equally helpless. The Hon. Mr. Pherozeshah Mehta condemning the principle and policy of the cotton duties bill said—" that principle and that policy are that the infant industries of India should be strangled in their birth if there is the remotest suspicion of their competing with English manufactures."[1]

It had been proved beyond doubt that only 6 per cent. of the Indian mill products were in a position to compete with Manchester. But, "in order to prevent any possibility of the duties being protective ", 20 per cent. of the Indian mill products were subjected to taxation. It was pointed out that[2] the measure was an interference with an industry which it was necessary to encourage in order to reduce pauperism, that it would increase the cost of a necessity of the poor throughout India, and that it would discourage the improvement of the quality of the cotton grown in India. The industry deserved consideration at the hands of the Government, if not its fostering care ; it got a standing menace in its stead.

But this was yet not a complete exercise of the political power of vested interests in England. The ease with which they carried out their wishes emboldened them to search for still more remote signs of protection to their helpless dependency, and they had simply to point their finger at any to accomplish their desires.

The objects of renewed attack from England may be thus stated—(1) that certain Scoth manufacturers and exporters sent to Burma, a large quantity of cotton yarns

1. Cf. Council Proceedings.
2. See Council Proceeding.

of low counts, which had to pay a duty of 5 per cent. and were thus at a disadvantage as compared with similar competing yarns from Bombay and Calcutta, which paid no excise duty if of number 20 and under, and entered Burma free of duty. (2) That the Indian manufacturer paid an excise duty of 5 per cent. on the grey yarn value of his goods, whereas the English manufacturer paid an import duty of 5 per cent. on the value of the finished goods, which was higher. (3) That Indian woven goods, made from yarns just below the excise line could, and would compete with and take the place of imported woven goods liable to a 5 per cent. duty.

Lord George Hamilton, in forwarding these objections to the Government of India concluded with this mandate[1]—"But if the condition of Indian finances compels the Government to retain import duties, then it is necessary that the duties should be placed on such footing as will not infringe pledges that have been given, or afford ground for continued complaint and attack."

On examination, the Manchester Case was pronounced by the Finance Member to be greatly exaggerated, but it was meekly said that there were two matters in which the treatment of Indian and of Manchester goods was not on quite the same level.[2] (i) That though the amount of coarse woven goods imported from England was at the most very small, it was not non-existent, and that there was some reason in the claim that the exemption of coarse goods from excise duty created a difference in price between the coarser and the finer which tended to divert the course of consumption from the finer to the coarser. It had been suggested that there was no such marked difference between the goods above the excise line and those below it as would prevent the latter from being substituted for the former. But for the fiscal measures of the Government of India, the Lancashire manufacturers had shown

1. P. P. C. 8078 of 1896, p. 7, despatch 5-9-1895.
2. Ibid. p. 27. Cf. Council Proceedings.

their willingness to produce the coarser fabrics. According to the Finance Member, though it was not possible for them to do this successfully, they might "justly object to being prevented from trying the experiment", because of a duty to which Indian manufacture was not subjected. There was an element of indirect protection which violated the principles laid down by Her Majesty's Government.

(ii) That the allegation that the tax levied upon yarns which were afterwards woven into cloth was lighter than that levied upon the finished article had some foundation. Though the actual difference was much less than what Manchester asserted it to be there was a difference in the mode of levying the duty which might result in a difference of amount.

In the removal of these probable mishaps, and in the hope of enabling her to make doubtful experiments, Manchester was to be provided with a remedy for the depressed condition of her trade. The circumstances out of which that depression arose, had, as admitted by the Secretary of State and the Government of India,[1] nothing to do with Indian cotton duties. The monopoly of the piece goods market was being taken away from Lancashire by keen competition all the world over. In this situation even the shadow of relief was welcome to her, no matter, if in the process substantial loss was inflicted on some one else.[2]

1. Ibid. p. 22.

2. Cf. P. P. 229 of 1896. Sir James Pelie, member, India Council, wrote in his minute of dissent against this measure—"When I consider the position taken up by the Government of India I am inclined to say that it would better have been more reticent. It is an awkward thing, to tell a defendant that there is next to nothing in the plaintiff's case, and then to give a verdict for the plaintiff with rather heavy damages..............I fully recognise the force of the pressure brought to bear by a declining industry looking about for something to attack, and attacking the most defenceless, although the most innocent of its supposed rivals." Cf. also the minute of Sir Alexander Arbuthnot. This was his third minute on the same question.

Accordingly, legislation was proposed and carried against universal indignant remonstrance all over India. (1) The countervailing excise duty to be levied in India was to be a direct duty upon woven goods (as the import duty was); and (2) the discriminating line of division at number 20 or any other count was given up. As a stop to the Indian critic, the duty was lowered from 5 to 3½ per cent. but this did not involve any change in the principle.

This action meant a remission of taxation of Rs. 51½ lakhs (or 37%) on Manchester goods, and an increase of Rs. 11 lakhs (or 300%) of taxation on Indian made goods. The Indian consumer of coarse goods was taxed in order that Manchester may make the experiment of supplying him with them. In subordinating Indian interests, it is easy to see that this measure immeasurably exceeded its predecessors of 1879, 1882 or 1894. "It imposed an excise duty on all cotton goods produced in India. It taxed the coarse Indian fabrics with which Manchester had never competed and never could compete. It threw a burden on Indian mills which competed with no mills in Europe. It raised the price of the poor man's clothing in India without the pretext of relieving the poor man of Lancashire."[1]

This miserable controversy thus came to an end, when Manchester saw to her gratification that she had left no possibility of even a nominal competition on the part of her Indian rival.

In the history of Indian Finance (or of British Rule in India), the way in which under cover of Free-Trade principles and equality of treatment, the political power of England was misused to forward the interests of a section of the English community, without due regard for the interests of India, will always remain a great blot.

The effect of the measures discussed above is visible in the revenue from customs during the second period.[2]

1. Dutt, Vol. II. p. 543.

1. See table in the appendix.

We observe a fall of more than a crore after 1882, when the General Customs duties were abolished. From 1882 to 1888, the Customs revenue was derived only from the special duties on imported liquors, and on arms and ammunition. In 1888 a 5 per cent. duty on petroleum was levied and hence the small increase in revenue after that year. On the reimposition of the General Customs duties in 1894, the revenue increased by more than 2 crores. When the Cotton duties were at last imposed another crore was added to the revenue. The revenue which was reduced to 1 crore in 1882 was 4·5 crores in 1898. Because of the existence of Import duties only for a few years in the second period, the average revenue for the period is small—2·2 crores, almost the same as the average revenue in the first period. It is evident that if Customs revenue had not been deprived of its proper place in the fiscal system of India during the second period, the financial difficulties would have been considerably diminished, and there would not have been any necessity of increasing the Salt duty as in 1888.

The Third Period. (1899-1913).

It is convenient to treat this section in three parts. The first will deal with Countervailing Duties on Sugar; the second with the question of Imperial Preference; and the third with other changes in the tariff during this period.

Countervailing Duties on Sugar:—From 1890 the imports of sugar from Austria and Germany into India began to increase. The exportation of beet-sugar from these countries was specially encouraged by a system of bounties. The principal features of the system in force in the chief beet-growing countries included (1) a bounty on exports, (2) an internal tax on the indigenous industry, to provide the bounties or recoup them, and (3) a prohibitive import duty to exclude foreign competition. In 1897 the United States of America passed an Act imposing countervailing duties on bounty-fed sugar. As a

consequence, the Austrian and German sugar was forced to find its market in India, and the imports of beet-sugar from these countries increased enormously from this year.

On account of this unfair competition with the Indian article, which the Free Trade policy of the Government of India allowed, the area under suger-cane was being reduced, and sugar refineries were being closed down. To save the Indian industry from complete ruin the Government of India passed an Act in 1899 by which power was taken to impose an additional duty on sugar imported into India equal to the net amount of bounty or grant given to such sugar by the exporting country.

In the meawhile continental manufacturers began to form combinations—known as cartels. On account of the very high import duty on sugar entering their countries, these manufacturers were able to sell their sugar for local consumption at such high prices, that it was possible for them to export sugar at a very low rate.

The Tariff Act of 1902 was meant to check the imports of sugar into India, which were thus artificially stimulated. The amount of the countervailing duties levied by this Act was limited to one-half the amount of the surtax or the difference between the import and local consumption duties, in the countries in question. The provisions of this Act were framed with due regard to the resolution of the Brussels Convention which had been signed in March of that year. The parties to the Convention had agreed to abolish all direct or indirect bounties on the production of sugar. It was agreed that sugar coming from countries where bounties were given on its production was to be specially taxed to the extent of the amount of the bounty.

In December 1903, the countervailing duties were abolished in the case of those countries which had adhered to the convention. The duties remained in force for some years in respect of Denmark, Russia, Chili and the Argentine

Republic. But the imports of sugar from these countries were practically nil and the duties were at last abolished in 1909 and 1912.

So far as any direct effect on the cultivation of sugar-cane, and on imports or prices of sugar was concerned, these measures were according to Sir Edward Baker without material result. The unsteady nature of the legislation in this connection dislocated trade and gave rise to many complaints. Some credit attaches, however, to these measures to the extent to which they helped to bring the Brussels Conference of 1901-02 to a successful conclusion.

From the above brief summary of the actions taken by the Gvvernment in this matter, we see that the aim of the Government wàs not to give any special protection to the Indian Sugar Industry. The object of these measures was to remove the unfair advantage which manufacturers in other countries had on account of the bounty system so as to fulfil the conditions of free trade and fair competition. But these efforts, as we have seen above, were not successful.

Imperial Preference.—The question of introducing a system of Imperial Preference with a view to establish greater solidarity between the different parts of the Empire had been urged by the Colonies on the United Kingdom at the Colonial Conferences of 1887, 1894 and 1897. Some of the Colonies had already established a system of preference in favour of the United Kingdom. The Colonial Conference of 1902 passed the following resolution with reference to this question:—

"1. That this Conference recognises that the principle of preferential trade between the United Kingdom and His Majesty's Dominions beyond the seas would stimulate and facilitate mutual commercial intercourse, and would, by promoting the development of the resources and industries of the several parts, strengthen the Empire.

"2. That the Conference recognises that, in the present circumstances of the colonies, it is not practicable to adopt a general system of Free Trade as between the Mother Country and the British Dominions beyond the seas.

"3. That with a view, however, to promoting the increase of trade within the Empire, it is desirable that those Colonies which have not already adopted such a policy should, as far as their circumstances permit, give substantial preferential treatment to the products and manufactures of the United Kingdom.

"4. That the Prime Ministers of the Colonies respectfully urge on His Majesty's Government the expediency of granting in the United Kingdom preferential treatment to the products and manufactures of the Colonies either by exemption from or reduction of duties now or hereafter imposed.

"5. That the Prime Ministers present at the Conference undertake to submit to their respective Governments at the earliest opportunity the principle of the resolution and to request them to take such measures as may be necessary to give effect to it."

India is not mentioned in this resolution. The Government of India were, however, asked by the Secretary of State to make any observations and suggestions which they might wish to make from the point of view of Indian intetests, in connection with this resolution. Lord Curzon's despatch of 22nd October 1903, and Sir Edward Law's minute were issued in reply to this.

In 1907, the India Office prepared a memorandum on this question which was submitted to the Colonial Conference which met in that year. Sir James Mackay, (now Lord Inchcape) as representative of the India Office made a speech in this connection before the Conference.

On all these occasions the official view was expressed against India joining any system of Imperial Preference. In view of the fact that this question has recently obtained some prominence, and is one of the problems on which the Fiscal Commission was invited to report, a brief reference to the views of the Indian Authorities in 1903 and 1907, may not be out of place.

If at all India is to take part in any scheme of Imperial Preference, it should be exactly on the same footing as the Colonies. According to this view, India would be free to impose duties with a view to protect indigenous industries even against imports from the United Kingdom and other parts of the Empire. In adopting a protective policy India might give a sort of preferential treatment to the products and manufactures of the United Kingdom and of the Colonies, so far as such a treatment was consistent with the industrial well-being of India. This could be done either by a reduction in the duties on products coming from the Empire or an increase in the duties on products coming from countries outside the Empire. Protection of indigenous industries on national lines and preference to Imperial goods would thus go hand in hand. Complete free trade within the Empire is not contemplated in this scheme.

This, the only way of uniting India with the rest of the Empire by a scheme of Imperial Preference, could not be thought of by the Indian Authorities in 1903 and in 1907. India was ruled in those years by the Principles of Free Trade without regard to her national interests. The same fears of giving up the Doctrines of Free Trade, which led the English Government to refuse to reciprocate the preference which was extended to them by the Colonies, led the Anglo-Indian authorities to refuse to join in a scheme of Imperial Preference. This refusal was not prompted by any definite ideas about the interests of India, but by the fear that if India were allowed to move an inch from the path of Free Trade, the industrial interests of the United Kingdom would be the first to suffer.

The foregoing remarks will be borne out by the following extracts :—

I. The Government of India in their despatch of 22nd October 1903 wrote as follows :—"In the first alternative India

might join the scheme on exactly the same footing as any of the self-governing colonies, and would, if need be, impose duties of a protective character, against imports from the United Kingdom and other parts of the British Empire, subject to the condition that, so far as her circumstances permitted, she should give substantial preferential treatment to the products and manufactures of the United Kingdom...........

"........It is sufficient to say that this alternative is not, so far as we can judge, within the sphere of practical politics. All past experience indicates that in the decision of any fiscal question concerning this country, powerful sections of the community at home will continue to demand that their interests, and not those of India alone, shall be allowed consideration.........If Indian industries are in need of, or should now desire a measure of protection, protective measures would necessarily seriously affect imports from the United Kingdom, and would only in a secondary degree affect those from foreign countries. We cannot imagine that the merchants of Lancashire or Dundee, to mention two interests alone, would be likely to acquiesce in such a course even though it were accompained by still higher duties against the foreigner, or that it would be accepted by the Home Government. We therefore dismiss this alternative as beyond the range of the present discussion."

II. The India Office Memorandum submmitted to the Colonial Conference of 1907 concludes with the following passage:—

It is doubtful how the measure would commend itself to public opinion in India, and its adoption would be likely to give rise to demands for other changes in the fiscal system of the country which would be difficult to refuse, and injurious to prominent industries in the United Kingdom to grant."

III. Sir James Mackay (now Lord Inchcape) who was supposed to represent Indian interests in the same Conference spoke as follows during the discussion on the question of Preferential Trade:—"It has been suggested that India might join a preferential tariff scheme, with liberty to impose duties of a protective character against imports from the British Empire, if accompanied by still heavier duties against foreign imports something the

same as you propose to have in Australia. There is no doubt that, if a preferential policy were adopted which admitted of the establishment of protective tariffs by Great Britain, proposals in this direction would be put forward and pressed by Indian manufacturers. They would claim the same right to protect their manufactures as the Colonies enjoy, and it would be difficult to offer a logical opposition to such a demand."[1]

Other Changes in the Tariff, 1899–1913.—The official attitude towards the fiscal arrangements of our country which has been explained in the preceding sections remained the same to the end of this period. The following brief summary of the events of 1910 and 1911 will illustrate the point.

The agreement with China had brought about a permanent decline in the Opium Revenue, and in 1910 the Finance Member thought it necessary to strengthen the basis of the revenues. The bulk of additional taxation during this year took the form of an increase in the existing customs duties on liquors, tobacco, silver and petroleum.

The mentality of the official mind is evident in the apology which Sir Guy Fleetwood Wilson was at pains to give in proposing these measures. '*I hope,*' he said, '*I shall not be charged with framing a Swadeshi budget.*' He had to emphasise the fact that the enhanced Customs duties were attributable solely to the imperative necessity of raising additional revenue and that there was not the slightest indication towards a protective customs tariff.

This was the first budget presented to the new councils constituted under the Act of 1909. The objections of several members including Gokhale against the duties on Petroleum and Silver were set aside. It may be noted

1. For a discussion of the conclusions of the Fiscal Commission on this question, see "Our Fiscal Policy" pp. 135–138.

that the alternative proposals of Gokhale—an enhanced import duty on Sugar, an export duty on Jute, and Raw Hides and Skins, and an increase in the General Customs Duties—have been all given effect to on subsequent occasions.

An interesting development took place next year (1911). The high duties on tobacco, it was said, did not give the expected return and it was considered probable that a somewhat lower range of duties would be more productive. A reduction of one-third on all classes of tobacco was accordingly proposed. A strong suspicion was expressed in the Council to the effect that the reduction was due to a vigorous agitation against the tobacco duties of 1910 carried on in England on behalf of the tobacco trade. No reply was given to this point by the Finance Member.

On account of these changes the Customs Revenue steadily increased. From 7 crores in 1909 it rose to 10·8 crores in 1913. The average Customs Revenue during the period amounted to 7 crores.

British Exports to India.

Before we proceed further, it would not be out of place to refer to the privileged position which British Exports enjoyed in India as compared with other countries.

In 1903 and 1904, the British Board of trade calculated the relative incidence of foreign and colonial tariffs on British exports. This was approximately ascertained by the mean "ad valorem equivalent of the impot duties imposed by each country on the main classes of goods which are exported from the United Kingdom to all destinations, and not solely to the particular market under consideration." The idea was to take account of those foreign and colonial import duties which may be high enough to exclude British goods from the particular

countries imposing them. The result of the calculation was as follows:—

Estimated[1] average "ad vlorem" equivalent of the Import duties levied by the undermentioned countries on the principal manufactures exported from the United Kingdom:—

	Per cent		Per cent.
Russia	131	Roumania	14
Spain	76	Belgium	13
U. S. A.... ...	73	Norway	12
Portugal ...	71	New Zealand ...	9
Austria-Hungary	35	Japan	9
France	34	Turkey	8
Argentine Republic	28	Switzerland	7
Italy	27	Australia	6
Germany ...	25	South Africa* ...	6
Sweden ...	23	China	5
Greece... ...	19	Holland	3
Denmark ...	18	British India	3
Canada* ...	17	* (Preferential Tariff).	

The least obstruction to English exports in 1904 was in Holland and in India. In Australia and South Africa it was twice as much. In Canada it was nearly 6 times. South Africa and Canada were supposed to give preferential treatment to English goods. The total value of the produce and manufactures of the United Kingdom exported in 1904 amounted to 300 m. £. Out of this India took the largest amount of goods valued at 40 m. £. Germany came next with 25 m. £. It may be noted that in 1904, the Import Duties settled after the controversy of 1894-96 prevailed in India. During the years 1882 to 1894, this nominal obstruction of 3 per cent. also did not exist.

1. P. P. Cd 2337 of 1904.

With reference to the above calculation, the Board of Trade made the following remarks:—"It would not, however, be justifiable to conclude from the above figures that the Customs Tariffs of the various countries are ranged in the same order as regards their comparative *protective efficiency*. The protective effect of a tariff is not necessarily proportionate to the average level of the duties, but also depends on many other factors, such as the comparatively advanced or backward state of the home industries protected. A 25 per cent. duty in Germany may give as complete protection to a native industry as a 100 per cent. duty in a more backward country. A high duty may have no protective effect, if the article to which it applies happen not to be manufactured in the country in question."

Industrially, India was in 1904 and is still backward. It is evident from this and from recent events, that during all these years India could have derived a larger revenue from Customs without being protective.

The War and after (1914-1920).

In the first two years of the war additional taxation was not imposed in our country. In 1916, however, it was not thought wise to go on with uncovered deficits. The measures introduced in March of that year were contemplated to bring additional revenue from three sources. Higher rates on larger incomes and an increase of four annas per maund in the Salt Duty were to give 1·5 m. £. to Government. At the same time important changes were introduced in the tariff with a view to bring in more than 2 m. £. of revenue.

The Tariff changes of 1916 may be thus summarised. The General Rate was increased from 5 per cent. to 7½ per cent. The duty on sugar was raised to 10 per cent. The

Free List was materially curtailed; it was confined only to certain specified articles.[1]

A large number of articles formerly free were brought under the pale of taxation. The special duty on Arms, Liquors, Tobacco and Silver manufactures was increased. Export duties were levied on Tea and Jute. The Import duty on Petroleum ($1\frac{1}{2}$ annas a gallon) and the Export duty on Rice (3 annas a maund) were left untouched.

In the case of silver plate and other silver manufactures an anomalous position existed. Indian silversmiths and manufacturers of silver thread and silverware paid a duty of 4 as. an ounce on imported silver, whereas the general duty of 5 per cent. only was levied on imported manufactured articles of silver. In order to remove this defect silver plate and silver manufactures of all sorts were subjected to a duty of 15 per cent. It was, however, provided that where the silver contained in an article could be ascertained, a duty of 4 as. an ounce should be levied on the amount of silver and a duty of $7\frac{1}{2}$ per cent. on the difference between the value of such silver calculated at the market value of silver and the real value of the article.

1. They were—

First:—Gold coin and bullion; and current Indian silver, nickel, bronze and copper coin.

Second:—Certain essential materials—raw hides and skins, raw cotton, raw wool and paper-making materials.

Third:—Certain Agricultural requisties—machines and implements for husbandry, dairy appliances, and manures, including certain Chemical manures.

Fourth:—Certain articles, the exemption of which follows logically from the practice of levying an excise on cotton goods and beer, *viz.*, cotton yarns and cotton thread, cotton spinning and weaving machinery, certain stores and articles used in the manufacture of cotton goods, and hops.

Fifth:—A few specific articles the exemption of which is either (*a*) supported by the practice of most countries—animals, works of art devoted to public purposes, books, natural science specimens, uniforms of public servants and military officers, and arms forming part of their equipment; or (*b*) justified by their special importance in Indian conditions:—quinine and Anti-Plague serum.

Sixth:—Salt imported for manufacturing purposes; Oil seeds imported by sea fron a Native State etc.

A glance at the following table will give a more clear idea of the changes that took place:—

	Ad valorem percentage of Import Duties.	
	The old rate.	The new rate.
General Import Tariff	5	$7\frac{1}{2}$
Sugar	5	10
Grain and pulse; tea chests and lead sheets used in their manufacture, and tea racks; firewood; printing and lithographing material; machinery other than the cotton spinning and weaving machinery exempted as above; railway material, including, Telegraphic apparatus imported for Railways; and ships. An equivalent quantitative rate (8 annas per ton) on coal, Coke and Fuel.	Nil.	$2\frac{1}{2}$
Fresh fruits and vegetables, fish maws, bamboos, bridles and fibres, horn, raw Jute, Oil cakes, plants, precious stones and pearls, gum olibanum, motor cars for goods, and earth, common clay and sand.	Nil.	$7\frac{1}{2}$
Iron and Steel	1	$2\frac{1}{2}$
Other metals	5	$7\frac{1}{2}$
Arms and Ammunition	10	20
Liquors	Various	rates.
Cigars and Cigarettes	20	50
Silver manufactures	5	15
	Export Duties.	
Tea	Nil.	Rs. 1-8-0 per 100 lbs.
Jute—Raw	Nil.	Rs. 2-4-0 for bale of 400 lbs. =5% *ad valorem*
Jute—manufactured (sacking)	Nil.	Rs. 10 per Ton.
Jute „ (Hessians)	Nil.	Rs. 16 per Ton.

In the above list we miss cotton manufactures. In connection with this most important article of import the gradual force of persistent agitation had slowly brought conviction to a second generation of Anglo-Indian officials. The intensity of Indian feeling in the matter was gradually appreciated. But the Government of India were yet helpless to do what they thought best in the interests of India. The apology which Sir William Meyer gave in this connection in March 1916 may quoted in full :—

"The only other important item in the existing tariff on which I have not yet touched is cotton manufactures. For the last twenty years the position has been that cotton twists and yarns of all kinds are free of duty, while a duty at the rate of $3\frac{1}{2}$ per cent. is imposed on woven goods of all kinds, whether imported or manufactured in Indian mills. We propose to leave the position here as it stands.

"The Council will naturally ask why at a time when fiscal necessities compel us to make a material enhancement of the tariff in nearly every other direction, we should leave cotton alone. Well, the Government of India have not failed to represent their view that there should be a material increase in the cotton import duties, while the cotton excise which has formed the subject of such widespread criticism in this country, should be left unenhanced, subject to the possibility of its being altogether abolished when financial circumstances are more favourable. But His Majesty's Government, who have to consider the position from a wider standpoint, felt that the raising of this question at the present time would be most unfortunate, as it would provoke a revival of old controversies at a time when they specially desired to avoid all contentious questions both here and in England and might prejudice the ultimate settlement of the larger issues raised by the War. His Majesty's Government feel that the fiscal relationship of all parts of the Empire as between one another and and the rest of world must be reconsidered after the war, and they desire to leave the question raised by the cotton duties to be considered then, in connection with the general fiscal policy which may be thought best for the Empire, and the share, military and financial, that has been taken by India in the present struggle. His Majesty's Government are aware of the great interest taken in

this question in India and of the impossibility of avoiding some reference to it when new taxation has to be raised, but they are confident that their decision is in the best interests of India and that premature discussion of this particular issue could only be harmful. We fully realise the force of these arguments at the present juncture, and consequently we are reluctantly compelled not to propose any modification in respect of the cotton duties ".

The Chairman of the Fiscal Commission, Sir Ibrahim Rahimtoola, then a member of the Imperial Legislative Council moved an amendment to the effect that the import duty of 3½ per cent. on cotton manufactures be raised to 6 per cent. He contended that when the General Tariff had been raised by 2½ per cent. it was not improper to raise the Cotton Duties to the same extent. The amendment, it need hardly be stated, was defeated by the official majority. During the course of his speech on the amendment, Sir Ibrahim said,

"Sir, it appears to me that it is rather hard that when the Government of India want the revenue, when the country is willing to agree to give them that additional revenue from a source which is agreeable to themselves, that they should be debarred from doing so and in that way necessitate the proposal for the increased salt tax."

In 1917, it was resolved to give a Special War Contribution of 100m. £. to the Imperial Treasury. This necessitated further taxation. The super-tax was imposed. A surcharge on Railway goods traffic was levied. Two changes were made in the Tariff. The export duty on Jute levied in the previous year was doubled; and the import duty on Cotton Goods was raised from 3½ per cent. to 7½ per cent. leaving the excise duty on cotton untouched. Referring to his speech in this connection in March 1916, quoted above, Sir William Meyer said :—

"To-day I am able to announce that in view of the taxation required to make our War Contribution worthy of India and of the place we desire her to hold in the Empire, His Majesty's Government

have now given their consent to our raising the Import Duty on Cotton Goods from $3\frac{1}{2}$ per cent. as it now is, to $7\frac{1}{2}$ per cent. which is our present General Tariff Rate."

This action was immediately followed by a strong agitation in England. It was defended on the ground that the duty was necessary to enable India to give the war contribution of 100 m. £. Commenting on this agitation the 'Times' (London) wrote as follows on March 5th, 1917 :—

"The Indian cotton duty has always been politically, economically, and above all morally indefensible. Opposition to it unites every class in India, from official members of the Government to all grades of the Indian community. It has made a grave breach in the moral basis of the British control of India. It was deeply resented from the outset, and has remained an open sore. India considers that the excise was imposed out of fear of the Lancashire vote, and no one can say that India is wrong in her belief."

Two other measures introduced in this year may be noted. (1). The change in the duty on silver manufactures made in 1916 involved administrative difficulties and therefore a uniform rate of 10 per cent. was now to be levied on silver plate and silver thread and wire, and silver manufactures of all sorts. (2). With the object of restricting the consumption of motor spirit during war time, an Act was passed in February 1917, by which an excise and customs duty of 6 as. a gallon was imposed on motor spirit. This was to be in operation during the war and six months after. But this tax became a useful source of revenue, and therefore the duration clause was removed in March 1919.

Reference has already been made to the views of the Government of India regarding the question of Imperial Preference. Following perhaps the development in connection with this problem in England, the Government of India introduced a measure in 1919, which has

committed India, so far as such a measure can commit, to a system of Preferential treatment to the Empire.

In September 1919 a tax of 15 per cent. was imposed upon the export of Hides and Skins. The object of fostering the Indian tanning industry was coupled with the other object of maintaining a key industry within the Empire. It was accordingly provided that a rebate of two thirds of the duty shall be given in the case of those Hides and Skins which were exported to any part of the Empire, including the countries in respect of which a mandate of the League of Nations was exercised by His Majesty's Government.

In view of recent developments the way in which this rebate is granted deserves notice. The exporter is permitted to pay only a 5 per cent. duty at the time of shipment, if he executes a bond for the remaining 10 per cent. the condition being that the bond shall become payable if a certificate of Empire tanning is not produced within a prescribed period. This period was fixed at 6 months in the beginning; it was extended first to 12 months and later to two years. In November 1921 it was extended to three years. The mischief of these executive concessions is evident. Unless the payment of the bonds is enforced, a direct impetus will be given to the export of Hides and Skins via British centres in the hope that ultimately these bonds will be cancelled. In the meanwhile the Indian Treasury is made to suffer; the Indian tanning industry receives little help; and it is not known to what extent this key industry remains within the Empire.

The effects of the great changes described above are at once visible in the revenue derived from Customs during the war and after. On account of the sudden dislocation of trade, during 1914 and 1915 we observe a fall in this source of revenue. With the various increases in the Tariff in 1916 and in 1917, the Customs revenue rose to 12·9 crores in the former year, and to 16.5 crores in the latter, in which year it occupied the second place (next only to Land) in the Revenue System of India. On account of the gradual restoration of trade after the Peace, there has been a still further rise in recent years, so much so that according to the final accounts of 1920-21, Customs and Land yield almost the

same amount of revenue.[1] The ascendency which "Customs" obtained in 1920 has been made as it were secure and permanent by the further changes which have been introduced by the Reformed Legislature in recent years.

Since the Reforms.

From the subordinate position which Customs Revenue was deliberately assigned in previous years, it was suddenly given a lift during the period of the war, and in 1920, as we have just seen it occupied a position as important as that of Land Revenue. One might imagine from this that a further increase in Customs was not possible. Yet this source of revenue which was the last to be thought of in earlier years, was the first to which the Finance Member turned to meet his deficit of 19 crores and another of 32 crores in March 1921 and in March 1922 respectively. The following words of the Hon. Mr. (now Sir Malcolm) Hailey in presenting the budget for 1921–22 are a curious commentary on the policy of the Government in days gone by—"The first additional source of revenue available is Customs. I think the House will agree that the existing tariff heads are such that, in the case of most articles, both the trade and the consumer can undoubtedly bear some increase".

This was not to be a protective tariff. The Finance Member was careful to point out that his Customs proposals from which he expected 8 crores of additional revenue had the sole object of producing more reveune and had no ulterior motive of a protective or any other kind.

In the same strain in presenting the budget for 1922-23, Sir Malcolm said in March 1922 that "when additional revenues are required, the first head to which one's thought naturally turns is Customs". Before proposing to increase the Customs Duties, however, the Finance Member had to take note of the fact that the Fiscal Commission was still sitting. But the pressure of financial necessity was so great that irrespective of the recommendations of the Commission, an increase in the Customs duties was inevitable. The proposed increase was however "not to involve any important change of principle in the existing fiscal arrangements".

1. Accounts, 1920–21 :—

		Rs.
Customs revenue, gross ...	...	31,89 lakhs.
Land revenue, gross ...	...	31,97 lakhs.

The changes made in 1921 and in 1922 may be thus summarised :—

	1920	1921	1922
General Import Duty.	$7\frac{1}{2}\%$	11%	15%
Cotton piece goods.	$7\frac{1}{2}\%$	11%	11%
Yarn.	—	—	5%
Machinery and stores of Cotton spinning and weaving mills.	—	$2\frac{1}{2}\%$	$2\frac{1}{2}\%$
Iron, Steel and Railway plant.	$2\frac{1}{2}\%$	$2\frac{1}{2}\%$	10%
Matches.	—	12 as. per gross box.	Re. 1-8 per gross box.
Sugar.	10%	15%	25%
Luxury articles—motor cars, motor cycles and tyres (including lorries) silk piece goods, fire works, clocks and watches, musical instruments, cinemotograph films, silver and gold thread and wire and manufactures, jewellery and jewels, etc.	Varying from $7\frac{1}{2}\%$ to 10%	20%	30%
Cigars and cigarettes.	50%	75%	—
Other sorts of manufactured tobacco.	Re. 1-8 per pound.	Rs. 2-4 per pound.	—
Kerosine.	$1\frac{1}{2}$ anna per gallon.	$1\frac{1}{2}$ anna per gallon.	$2\frac{1}{2}$ annas per gallon.
Kerosine—Excise Duty.	—	—	1 anna per gallon.
Liquors :—			
	Rs. as. ps.	Rs. as. ps.	Rs. as. ps.
Ale, Beer, Cider, etc. per gallon	0 4 6	0 6 6	0 8 0
Liguors, untested, per gallon	14 10 0	25 0 0	30 0 0
Liquors, tested, per proof gallon	11 4 0	18 12 0	21 14 0
Perfumed spirits, per gallon	18 12 0	30 0 0	36 0 0
All other spirits per proof gallon	11 4 0	18 12 0	21 14 0
Wines, sparkling per gallon	4 6 0	9 0 0	—
Wines, other sorts per gallon	1 12 0	4 8 0	—

As in 1917, the proposal to increase the import duties on cotton goods without a corresponding increase in the cotton excise duty in 1921, was followed by an agitation on the part of interested parties in England. Though nothing is laid down in this connection in the Act of 1919, the recommendation of the Joint Select Committee which considered the Government of India Bill is clear on the point. It is to the effect that "the Secretary of State should as far as possible avoid interference on this subject when the Government of India and its Legislature are in agreement, and they think that his intervention when it does take place should be limited to safe-guarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party".

Mr. Montagu's reply to the Lancashire deputation on 23rd March 1921 was in conformity with this recommendation, and it shows that for the first time in history, the Secretary of State was determined to maintain the right of the Government of India to consider the interests of India first, in shaping their fiscal policy. He said:—"After that Report by an authoritative Committee of both Houses and Lord Curzon's promise in the House of Lords, it was absolutely impossible for me to interfere with the right which I believe was wisely given and which I am determined to maintain—to give the Government of India the right to consider the interests of India first, just as we, without any complaint from any other parts of the Empire, and the other parts of the Empire without any complaint from us, have always chosen the tariff arrangements which they think best fitted for their needs, thinking of their own citizens first". In his despatch of 30th June 1921, the Secretary of State accepted on behalf of His Majesty's Government the principle recommended by the Joint Committee, referred to above.

An interesting development took place in connection with the Budget of 1922-23. With a view to meet the heavy deficit of 32 crores, large additional taxation was necessary. Among the measures proposed was an increase in the General Import Duty from 11 per cent. to 15 per cent. The Excise duty on Cotton goods was left at $3\frac{1}{2}$ per cent. in 1921; it was now proposed that a corresponding increase should be made in this duty by raising it to $7\frac{1}{2}$ per cent. Manchester was naturally jubilant over the proposal; and it was alleged in the Legislature and elsewhere that the proposal was due to actual or apprehended pressure from Manchester. The Finance Member emphatically denied the existence of any such pressure, though it is doubtful whether he succeeded in convincing the Legislature about it. According to him the needs of revenue were the sole justification for the proposed increase and that if the Excise duty was not raised, the middlemen would profit by means of the enhanced prices which would in any case follow the higher import duty.

The proposal to increase the Cotton Excise Duty was thrown out by the Legislative Assembly. After this an unexpected development took place in that body. A proposal was made that the Import Duty on Cotton piece goods should be left untouched at 11 per cent. though the General Import duty was to be raised to 15 per cent. Though the Government wanted a large additional revenue, and though their proposals to increase the Salt duty and the Cotton Excise duty had been thrown out, they accepted this proposal in favour of a smaller duty on Cotton piece goods, (it was carried by 68 votes against 30) on the ground that it was not worth while bringing about all those undesirable consequences which would follow from the increase in the general cost of the consumer for the sake of a revenue of 140 lakhs of rupees.

Among the changes in the tariff made along with the budgets of 1923 and 1924 may be mentioned a reduction

from 15 to 5 per cent. of the export duty on raw hides and skins, with the abolition of the system of rebates in 1925; the reduction of the Exise duty on Motor spirit to $4\frac{1}{2}$ annas a gallon, and the imposition of specific duties on empty match boxes and splints, in order to protect the match revenue in 1924. It has also been decided this year to charge customs duties on imported Government stores which were hitherto admitted free of duty.

Discriminating Protection.

The Report of the Indian Fiscal Commission which was published in October 1922, is a document of great importance for the future economic development of our country. Though the great expectations which were held out from the labours of this Commission, in which there was an Indian majority with an Indian President, do not seem to have been realised, it must be admitted that the Report marks the beginning of a definite change in the Fiscal Policy of India. It would be beyond the scope of this work to discuss in detail the Report of the Commission[1]; it will be sufficient to note that in view of its recommendations, the Legislative Assembly passed the following resolution in February 1923 :—

"That this assembly recommends to the Governor General in Council.

(*a*) that he accepts in principle the proposition that the fiscal policy of the Government of India may legitimately be directed towards fostering the development of industries in India.

(*b*) that in the application of the above principle of protection, regard must be had to the financial needs of the country and to the present dependence of the Government of India on import, export and excise duties for a large part of its revenue.

(*c*) that the principle should be applied with discrimination, with due regard to the well-being of the community and to the

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1. For a critical review of the Report of the Indian Fiscal Commission, see Part III, of "Our Fiscal Policy" by the present writer.

safeguards suggested in paragraph 97 of the Report of the Indian Fiscal Commission;

(*d*) that in order that effect may be given to these recommendations, a Tariff Board should be constituted for a period not exceeding one year in the first instance, that such Tariff Board should be purely an investigating and advisory body and should consist of not more than three members, one of whom should be a Government Official, but with power subject to the approval of the Government of India, to co-opt other members for particular inquiries."

In accordance with this resolution, the Government of India appointed a Tariff Board for one year, to start with. The selection of industries and the determination of the order in which they may be investigated by the Tariff Board rest with the Government of India. It is the duty of the Board after the necessary examination to make recommendations regarding the protection, if any, to be extended to those industries and the nature and extent of the protection. As recommended by the Fiscal Commission, the Government of India laid down that the question of extending protection to the manufacture of steel in India should be considered first.

The Report of the Tariff Board on the question of protection to the Steel Industry was published in the end of April 1924, and a special session of the Legislature was convened to consider it in May 1924. This resulted in the passing of an Act to provide for the fostering and development of the steel industry in British India. Special rates of duty are levied on certain iron and steel articles imported from abroad, and bounties are to be given to manufacturers in British India of certain such articles. If articles are imported into India at a price which is likely to render ineffective the protection intended to be given by these duties, the Government of India are empowered by the Act to increase them. In the case of bounties it has been provided, that the parties receiving them should provide facilities for the technical training of Indians, and that a company receiving such help should have been

formed and registered under the Indian Companies Act, 1913; should have its share capital in rupees; and that a certain proportion of the directors, to be laid down by the Government, should be Indians. Inquiry is to be made before 31st March 1927, as to the extent, if any, to which these measures should be continued.

Conclusions.

The conclusions at which we arrive from the foregoing review of the fiscal arrangements of our country are :—

(*a*) That the Fiscal Policy of the Government of India was till recently greatly influenced by considerations other than Indian.

(*b*) That the policy was laid down usually by the Secretary of State who was influenced by party considerations—chiefly the Lancashire Vote.

(*c*) That on account of these reasons the undermentioned consequences followed:—(1) The policy of Free Trade was imposed on India against her will; (2) the opportunity to develop her national industries on protective lines was denied to her; (3) she was left to be an agricultural country supplying raw products for the industries of England and other countries; (4) and the Customs revenue of the Government of India occupied a very subordinate position in their Revenue System. Even in times of difficulty an addition to the Customs revenue was the last to be thought of.

(*d*) That the stern realities of the war gradually gave Customs a better position in the Revenue System of India.

(*e*) That the convention established by the Joint Select Committee has given some independence to the Government of India and the Indian Legislature jointly, in the management of Our Fiscal policy.

(*f*) And that a policy of discriminating protection has been adopted by the Indian Legislature on the recommendation of the Indian Fiscal Commission.

CHAPTER XV.

INDIRECT TAXES :—(B) SALT DUTY.

Upto 1884, next to Land and Opium, the greatest contribution to the revenue was derived from duties on Salt—a primary necessity of life. After 1884, the revenue from Salt was next only to that from Land for many years. This position was due entirely to British fiscal policy, for under native rule salt was taxed at a low rate. The loss to the revenue due to the abolition of Moturpha and several other petty imposts was made up by charging a comparatively high duty on salt.

Early History :—In Bengal, the Salt Revenue was derived mostly in the form of customs[1] on imported salt; but the importation of salt which began in 1818 was not considerable till 1835. Before 1818, the entire supply was obtained from local manufacture by boiling or by evaporation along the sea cost, from Chittagong to Puri in Orissa. Under Mahommedan rule, there were nominal duties on Salt. In 1766, after having acquired the grant of the Diwani, Clive established for a time, a monopoly of salt though the agency of a company. He wanted to find a fresh source of income to pay adequate salaries to the Civil Service, but his scheme was not approved by the Court of Directors, and from 1772 farming leases were given. In 1780 Warren Hastings introduced a system of government monopoly. Manufacturers were given advances of money on the condition that all their produce should be delivered to the Government. The Salt was then sold by the State, the difference between the cost and the price realised being the Government duty which was Rs. 2½ a maund (82 lbs.) in 1856. This system was abolished in 1862, leaving the supply of Salt, whether by importation or excise manufacture to private enterprise. Partly on

1. The import duty on Salt is credited to "Salt" and not to "Customs."

account of local difficulties and partly on account of increasing competition of imported salt, the local industry in Bengal did not thrive, and completely disappeared when the duty on Salt manufactured locally and on that imported by sea was equalised a few years after.

To Madras and Bombay the source of supply is the sea. In Madras there was a monopoly system similar to that established in Bengal by Hastings. In Bombay the duty was chiefly levied as an excise. In the Punjab, which possesses inexhaustable supplies of rock-salt, the duty was included in the selling price of the article, which was dug and removed from the mines and sold by the Government. Since 1843, Salt coming from the native States in Rajputana paid an import duty while entering British territory. Similarly, Madras and Bombay salt entering the Central Provinces also paid a duty.

Among the measures which were adopted to increase the revenue after the Mutiny, was the enhancement of the salt duty in all the provinces. Considerable additions were made to the duty in 1859 and 1860, and also in 1861 in two of the provinces. In 1862 when these changes came into full operation the gross revenue was 5·2 crores as against 2·6 crores in 1856, or exactly twice as much. The finances, during the first period, were not found in a position which could afford relief to the agriculturist from the payment of a duty of 666 to 1733 per cent[1] on the cost of an article, which was necessary for the efficiency of both himself and his cattle. It was not only that no reduction was made in the duties, but on the ground of equalising the duties in different provinces, they were raised in those provinces where they were lower, so that another crore was added to the revenue by the end of the first period.

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1. In 1861 the duty varied from Re. 1–4, to Rs. 3–4 the cost being 3 as. per maund.

Inland Customs Line :—The different rates of duty in different provinces and the changes made from time to time will be seen at a glance from a table in the appendix. The inconvenience of these different rates was not felt so long as the means of communication were imperfect. But to collect the duty on salt imported from the native states, and to stop the passing of salt from one province to another, there came into existence a sort of Inland Customs Line, described as " a monstrous system to which it would be almost impossible to find a parallel in any tolerably civilised country ".[1] It stretched across the whole of India and in 1869 covered a distance 2,300 miles, guarded by nearly 12,000 men at an annual cost of £ 162,000. "The line", the commissioner of inland customs wrote in his report for 1869, " is divided into 110 beats, each presided over by a patrol, and watched from 1,727 guard-posts. A very perfect system of patrolling exists, and, except in some wild portions of the Central Provinces (where tigers bar the way alike to smuggler and customs officer after dark), goes on with unabated vigilance night and day ".[2]

Sir John Strachey referring to the Customs Line when it was reduced gave the following description[3] :—

" If put down in Europe, it would have stretched from London to Constantinople. Along the greater part of its extent it consisted of a huge material barrier, which Mr. Grant Duff, speaking from personal observation, said could be compared to nothing else in the world except the great wall of China; it consisted principally of an immense impenetrable hedge of thorny trees and bushes, supplemented by stone walls and ditches, across which no human being or beast of burden or vehicle could pass without being subjected to detention and search. "

It is easy to imagine the great obstruction to trade that resulted from this system. Instances of interference

1. Strachey, Finances and Public Works in India, p. 219.
2. F. S. 1877.
3: Strachey, Ibid. pp. 219-220.

with and annoyance to individuals, of gross abuses and oppression, were not wanting. To put an end to this great evil, two things were necessary; to equalise the duties in different provinces and to control the manufacture and taxation of salt produced in the native states. Nothing was done in this direction till 1869, when as a first step towards the equalisation of the duties, they were raised by 5 annas in Bombay and Madras. The desired end could also have been achieved by lowering the duties where they were higher, but this was not thought of because an increase in the revenue was also a motive that guided the action. In the same year, arrangements were made with the states of Jaipur and Jodhpur by which the British Government acquired the lease of the Sambhar Salt Lake, the chief source of salt in Rajputana. As a result, about 800 miles of the Customs Line were abolished in 1874.

It took some time before final arrangements could be made with the other Native States by which the British Government were given the leases of all the important Salt sources in Central India. When this was accomplished in 1878, the chief sources of salt in that part of the country came under the control of the Government of India. Generally speaking, an excise duty of Rs. 2-8 was imposed on salt manufacture at these places. The manufacture of local salt throughout the native states, with whom agreements were made, came to an end, with some minor exceptions. The agreements provided either a certain free supply of salt to the native states or certain annual payments.[1] The local manufacturers were given some compensation. Agreements for the supply and manufacture of salt were also made with the French and Portugese Governments, regarding their possessions in India.

1. These payments were included in the item "Allowances and Assignments". Cf. F. S. 1880. p. 606.

At the same time (1878), important changes were made in the salt duties with the ostensible reason of equalising them in the different provinces. The duties in Bombay and Madras had been raised to Rs. 1–13 in 1869; they were now further raised to Rs. 2–8.[1] In Bengal the duty was reduced from Rs. 3–4 to Rs. 3, and afterwards to Rs. 2–14; and in Northern India from Rs. 3 to Rs. 2–12, and afterwards to Rs. 2–8. The duties were thus very nearly equalised all over India.

With the equalisation of the duties, and with the control of the sources of supply in the hands of the Government, it was possible to abolish the Customs Line, which came to an end in 1879.[2] A saving of £ 100,000 was caused by the abolition of the preventive establishments. It may be noted that along with the abolition of the Customs Line, the duties on Sugar exported across this Line also came to an end. The revenue from this source was £ 150,000.[3] It relieved mainly the people of the Native States.

1. About this time as part of the famine taxation, special rates were levied on the land in all provinces, except Bombay and Madras. In these two provinces, the Salt duties had been considerably increased, and the increase in the Salt Revenue was due to this They were therefore exempted from the special rates. Though the ostensible reason of the increase in the Salt Duties in Bombay and Madras was the policy of Equalisation, this increase did help the Government in carrying out their famine policy. Cf Fawcett pp. 35 & 82.

2. In the Trans-Indus Districts of the Punjab, Salt is consumed which is produced at the Kohat mines. On this a duty varying from 2½ annas to 4 annas was levied. When the General Customs Line was abolished, a small preventive line along the Indus had to be maintained. In 1883 the duty was raised to 8 annas per Lahori maund of 102 lbs. In 1896, it was increased to Rs. 2 and the preventive line was withdrawn. In British Burma Salt was taxed at a nominal rate of 3 annas a maund; no change could be made there at this time, because of certain treaty arrangements.

3. F. S. 1879, pp. 18-19.

It was pointed out that the increase in salt duties in some provinces affected a smaller population, and that the decrease in others affected a larger population. But the increase in duty from Rs. 1-13 to Rs. 2-8, was greater than the decrease in duty from Rs. 3-4 to Rs. 2-14 and from Rs. 3 to Rs. 2-8 ; and the general result was that the net revenue from salt increased in 1878 and 1879 by more than half a crore.

In 1882, the financial situation was prosperous, and it was found possible to abolish the General Customs Duties, and to reduce the Salt Duty to Rs. 2 per maund.

In January 1888, however, the Government of India found that it was necessary to increase their resources by 1·4 crores. They attributed the difficulty to the increasing loss by Exchange and to a diminution of receipts under Railways and Opium. But as we shall see elsewhere the real difficulties of the Government were due in a great measure to the increased military expenditure after 1885. The Income Tax of 1886 was swallowed up in this increased military expenditure, and the increasing loss by Exchange. The Government had now to impose a 5 per cent. duty on imported petroleum and increase the Salt Duty to Rs. 2-8, to make both ends meet. The small duty of 3 annas in Burma was also raised to one rupee.

The weak financial position of the Government throughout the remaining portion of the last century accounts for the retention of the duty at this rate. In the early years of this century, one of the insistent demands of the public, led by Mr. Gokhale was to reduce the salt duty. In view of the series of surpluses during these years, the duty was reduced to Rs. 2 in 1903, to Rs. 1-8 in 1905, and to Re. 1 in 1907. As we shall see later, these reductions stimulated the consumption of salt even during famine years.

Recent events :—From this time, the salt tax has been looked upon by the Government as a financial reserve, in as much as without any material increase in the cost of collection, it is easy to raise a large revenue by raising the duty on salt. This is possible because it is a necessity of life, and therefore the object of the increased duty would not be defeated by any sudden effect on consumption.

It was in accordance with these ideas that in the war taxation of 1916, the salt duty was raised to Rs. 1-4. The duty on salt locally produced in Burma, which was till then less than that prevailing in India, was also increased to Re. 1-4 in January 1917. Even this apparently small increase in the duty was considered objectionable, and resolutions were moved in the Imperial Council against the increase, which were however defeated by the official majority.

Since then, the revenue resources of the Government have been increased in various directions to meet the war expenditure, and the heavy deficits beginning from 1918. In spite of these increased resources, the deficits went beyond control, and the Government of India proposed to the Reformed Legislature in March 1922, an increase in the salt duty from Rs. 1-4 to 2-8. This was rejected by the Assembly. In spite of the reductions proposed by the Inchcape Committee, the existing sources of revenue were not sufficient for the year 1923-24, and the proposal to double the salt duty was again made. As was natural, the Assembly rejected the proposal a second time. The Government of India, who had to their credit a succession of deficits from 1918 amounting to more than a hundred crores in the aggregate, were neither willing to reduce expenditure to the necessary extent nor to budget for a deficit, as in their opinion a deficit budget would endanger the credit of India. The Council of State, however, came to the help of the Government, and accepted the proposal to double the salt duty. According to the new constitutional

practice, the bill as passed by the Council of State was referred back to the Assembly to be rejected a third time. The Viceroy thereafter exercised his extraordinrry power of certification under section 67 B of the Act of 1919. The finance Bill of 1924 also contained a similar provision for keeping the salt duty at Rs. 2-8. The duty was however subsequently reduced to Rs. 1-4, under the circumstances already explained.[1]

The Theory of Salt Duty.

The principles on which Salt is regarded as a legitimate object of taxation were laid down by the Duke of Argyle (Secretary of State) in 1869 in the following terms[2]:—

"It is impossible, in any country, to reach the masses of the population by direct taxes. If they are to contribute at all to the expenditure of the state, it must be through taxes levied upon some articles of universal consumption. If such taxes are fairly adjusted, a large revenue can be thus raised, not only with less consciousness on the part of the people, but with less real hardship upon them than in any other way whatever. There is no other article in India answering this description upon which any tax is levied. It appears to be the only one which at present, in that country, can occupy the place which is held in our own financial system by the great articles of consumption from which a large part of the imperial revenue is derived. I am of opinion, therefore, that the Salt tax in India must continue to be regarded as a legitimate and important branch of the public revenue. It is the duty, however, of the Government to see that such taxes are not so heavy as to bear unjustly upon the poor, by amounting to a very large percentage upon their necessary expenditure. The best test whether an indirect tax is open to this objection is to be found in its effect upon consumption."

The assumption that the masses of the people contribute nothing to the state is due to the misguided belief that land revenue is not a tax. The capacity of the average Englishman to pay taxes on several articles of

1. See page 69.
2. F. S. 1877. p. 158.

consumption has never been denied. Investigation into the capacity of the Indian farmer to pay a tax on such a necessity of life as salt has always been ignored. The wise caution laid down in the above extract that it is the duty of the Government to see that such taxes do not form a large percentage upon the necessary expenditure of the poor remained only on paper. The income of the average Indian is too low for the barest necessities of life, and a tax of even a few annas per head on an article like salt could not but be a source of incalculable mischief to him. Certainly the Indian peasant was unconscious that he was paying a duty to the Government when he bought salt, but his hardship on that account was not less real; he felt it but was at a loss to explain it.

Of course, the only test whether the tax was open to this objection could be found in its effect upon consumption. Accurate figures about the consumption of salt during the first period are not available, but roughly speaking the figures show that consumption remained more or less stationary though the population increased from 142 millions in 1861 to 189 millions in 1871. Evidence exists about the fact that the tax operated to check consumption of salt to some extent by human beings and to a very large extent by cattle, so that a great deal of sickness among the population, the mortality caused by the epidemics, and the extension of the cattle plague, were all attributed to the insufficient amount of salt allowed to the people.[1]

Sir John Strachey in his Financial Statement for 1877 said :—

"I have a strong belief that more than a hundred millions of people fail now to obtain a full supply of salt; I do not for a moment assert, nor do I believe, that the actual supply is insufficient for the preservation of health; nor do I at all agree with those who maintain that the salt tax presses with extreme severity on the poorest classes;

1. S. C. 1871, Q. 5413.

but, however this may be, it is a great evil that the supply of this necessary of life should be restricted; and the restriction is not only mischievous in respect of human consumption, but in this way also, that there is little salt for the cattle, and little for any of the manufacturing processes in which it would be useful."[1]

The policy of the Equalisation of duties in the different provinces led to some increase in consumption, but it was not fully effective, because it was carried out partly by an increase in duty in some provinces.

In 1882, Major Baring, (afterwards Lord Cromer) showed that the annual average consumption of salt per head in the different provinces[2] in 1881 was as under :—

Madras	...	12 Lbs.	**Punjab**	...	7·5 Lbs.
Bombay	...	10 Lbs.	**U. P.**	...	6 Lbs.
Bengal	...	9.1 Lbs.	**Sind**	...	5 Lbs.

Though he assigned a few causes for this great difference from province to province, he came to the conclusion that "if the rate of duty were lowered, the consumption of salt in Northern India might be considerably increased[3]".

That the reduction of duty in 1882 did lead to some increase in consumption is evident from the tables in the appendix. With the increase in the duty in 1888, however, the consumption received a great check for a time and did not show an increase proportionate to the increase in population till in the early years of this

1. In his book on the "Finances and Public Works of India", 1882, he points out the following :—" In Madras and Bombay Presidencies, where the duties were lowest, and salt was cheap and abundant, the average consumption of salt by the people per head was double that of the people in Northern India, where salt was dear, where the duty was high, and the supply limited; and financially, the results in the former were more satisfactory than in the latter."

2. Figures for C. P. are not available.

3. F. S. 1882. P. 42.

century, a policy of reducing the salt duty was put into force. We see from the figures in the appendix that the reduction in the duty during the years 1903, 1905 and 1907 had a marked effect on the consumption of salt. Not considering the small increase in duty in 1916, the doubling of it in 1923 must have had an adverse effect on consumption which accounts for the depression in the Salt trade during the last year. The exact effect of the increase in 1923 cannot be determined till the necessary figures are available. With the restoration of the rate of Rs. 1-4-0 in 1924, the adverse effects on consumption, will not exist.

The object of the policy of the Government of India with regard to the Salt Duty as defined in 1878 was to give to the people of India "the means of obtaining, with the least possible inconvenience, and at the cheapest rate consistent with financial necessities, a supply of salt only limited by the peoples' capacity for consumption."[1]

From the above discussion we see that this policy did not materialise till 1903, and that the principles underlying it were temporarily overlooked in 1923.

The net revenue from salt was 380 lakhs in 1861. It rose to 570 lakhs in 1874. When the duties were equalised by an increase in the rates in Bombay and Madras in 1878, the revenue was 650 lakhs. With the reduction of the duty in 1882, it fell again to 570 lakhs, and rose to 720 lakhs in 1888 when it was again increased. In 1908, that is, after the reductions of 1903 to 1907 were in full operation, the revenue amounted to 435 lakhs. In 1916, the increase by four annas gave a substantial addition to the salt revenue which amounted to 660 lakhs. With the doubling of the salt duty in 1923, the Government realised 728 lakhs; the budgetted figure for 1924 being about 760 lakhs.

1. F. S. 1878.

The average net revenue from salt in the different periods was as under:—

	Lakhs of Rs.
First period	510
Second period	700
Third period	611
Fourth period	584

(C) EXCISE.

The manufacture and sale of spirituous liquors were subject to duty under native rule. This source of revenue was known as "Abkari"—a Persian word which means euphemistically "the manufacture of water". At the end of the 18th century, when certain minor sources of miscellaneous revenue, known collectively as Sayer, were abolished, Abkari was expressly reserved; and its collection was enforced by an elaborate series of rules made in 1813 and 1824.

Though we hear of "Abkari" during native rule, its prominence as a source of revenue is due to the British, under whom it increased at a very rapid rate.

Excise Systems :—Before the advent of British rule the system in force in connection with this revenue was that of farming, that is, the right of manufacture and sale of liquor was given to the highest bidder. Modifications were introduced by the British in each province separately with reference to local peculiarities. The consequence was that many different systems came into existence. For the sake of convenience, however, these systems have been divided into two groups:—

(1) Those under which a fixed duty is levied on each gallon of spirit manufactured and issued for sale.

(2) Those under which the tax is not thus directly proportioned to quantity, but is levied in the gross by

payments, the amount of which is usually fixed by competition.

The first group is generally known as the Central Distillery System; the second as the Farming or Outstill System.

Under the former system, a Central Distillery is maintained by the Government in a certain area. Any approved person can set up a still in the building and manufacture spirits under official supervision. He has to pay the fixed duty on each gallon of manufactured spirit, which he passes out of the distillery, and other miscellaneous charges. No one possesses a monopoly of manufacture. The right to manufacture is kept distinct from the right to sell. The liquor can be sold at licensed shops the number and location of which is fixed by the district authorities. The license fees are in some places certain monthly or annual amounts; in others the amount is determined by competition at auction or by tenders.[1]

The Outstill system is a kind of monopoly. Under this system the right to manufacture and sell in a defined area or the right to manufacture at a particular outstill, and to sell the spirit manufactured there, is sold by auction to the highest bidder. The number and location of shops is fixed beforehand by the Government.

In Bombay, there was a combination of these two systems, known as the Guaranteed Minimum System. A monopoly of the right of manufacture and sale was created, but the manufacture was to take place in a Government distillery under official supervision. The grant of monopoly was determined by tender, the subject of the tender being the minimum number of gallons, on which the tenderer would undertake to pay still-head duty.

1. The Central Distillery System was adopted from that prevailing in England.

It is easy to see that the greatest danger of the Outstill System was that the price of liquor would be greatly reduced. The object of the monopolist is to make the largest possible profit. In many cases it happened that a maximum of profit could be secured by a large sale at low prices rather than by high prices with a smaller sale. Under the Guaranteed Minimum System, the man who offered to pay the duty on the greatest number of gallons of spirit got the monopoly. It was therefore to the interest of the monopolist to stimulate consumption. These dangers do not exist in connection with the Central Distillery System. But among the disadvantages of this system, the Government of India pointed out the following in 1890[1]:—(1) The expense relatively to the amount of revenue to be collected, (2) the impossibility of securing a trustworthy preventive establishment,[2] (3) defective means of communication, (4) facilities for illicit distillation, (5) deterioration of liquor in transport and (6) smuggling from native states.

On the whole, however, since 1889 the Central Distillery System has been recognised to be the best under the circumstances of India.

It must be noted that these systems have reference to the indigeneous spirits of India, known for administrative purposes as "Country spirits". Spirits manufactured in India after the "European method" are taxed at a somewhat higher rate. This rate corresponds to the Customs Duty on "Imported spirits". The revenue from "Imported Spirits" is credited to "Customs"; but a small Excise License fee is levied on the shops where they are sold.

1. Despatch, 4 Feb. 1890.

2. Cf. the remarks about the difficulty of obtaining trustworthy subordinates in the chapter on Income Tax. The work of an Excise official is so much against the sentiment of the people, that the more intelligent and trustworthy class of people would not join the Excise Department.

The other source of Excise revenue is that from the production and sale of Hemp Drugs and Opium. The taxation from Hemp Drugs is derived by (1) a combination of direct duty and vend fees; and (2) by prohibition of hemp cultivation except under license. Opium for consumption in India is sold by the Government to licensed retailers at certain rates, the difference between the selling price and the cost to the Government being the duty[1]. The number of shops for the sale of Hemp Drugs and Opium are fixed by the Government and the right to sell is given on payment of a license fee. There is also a limitation to the extent of legal possession of the drugs.

Excise Policy.

The general intention of the Government in connection with their Excise Administration was to raise a maximum of revenue from a minimum of consumption[2]. The rates of duty were to be increased to the highest point that would not encourage illicit production or manufacture. The existence of different systems in different provinces led to a large variety in the rates of duty from province to province. Even within the same province, the rates of duty differed from district to district.

Though as we have seen the general aim of the Government was to check consumption without encouraging smuggling or to raise a maximum of revenue from a minimum of consumption, we find that the results were far from good.

The people of India—both Hindus and Mahommedans—are strictly forbidden by their religions to indulge in intoxicating liquor. The climate of the country, moreover,

1. The question of the consumption of opium in India will be discussed in the following chapter in connection with Opium Revenue.

2. For a detailed account of Government Excise policy see Report of the Bombay Excise Committee, 1923.

makes it highly injurious to the physique of the man who drinks. But the restrictions of their creed and climate became loose, on the one hand with the touch of western influence, and on the other with the increasing facilities that were provided by the British Administration.

Mr. Keshub Chunder Sen, the great religious and social reformer said in 1874:—

"It is indeed harrowing and painful to contemplate the extent to which sensuality, profligacy, and brutal revels on the one hand, and irreligion, blasphemy and practical atheism on the other, are making ravages among all classes of the native community in consequence of the spread of drunkenness, and undermining the religious and moral life of the nation In short, the use of intoxicating liquor has done more than anything else to degrade the physical, moral and social condition of my countrymen, and has proved a stupendous obstacle in the path of reformation". The great reformer attributed these results to two chief causes:—(1) "the unsettlement of popular faith and ideas in consequence of the spread of English education, and (2) the unnecessary multiplication of liquor shops".

The Bengal Excise Commission reported in 1884 as follows:—

"They (the Commission) fear that even though the teaching and example of some of the most distinguished and estimable members of Bengali society may do some good in checking the tendency to drink in individual cases, these praiseworthy efforts are more than counterbalanced by general causes, by the force which seems to impel the majority of educated Bengalees to imitate Western Customs wilhout considering their suitability to this country and by the moral deterioration which almost necessarily follows social changes, such as the disappearance of the family system with its powers of control and restriction, the relaxation of religious restraints, the development of individualism unchecked by reverence and habits of obedience, and the introduction of other tendencies which may now be seen at work among the educated classes of Bengal."[1]

The same remarks were generally true for all India.

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1. Despatch. 4 Feb. 1890.

In 1890, the Government of India wrote :—

"For Mahommedans and Hindus of certain castes no special restrictions are necessary in order to discourage drinking. The habit is opposed to their religious principles and is discountenanced by the public opinion to which they are subject. It is no doubt true that some Mahommedans and some Hindus, for whom drink is forbidden by their religion, do drink secretly or openly, but this is either because they choose to disregard in this respect the principles of the religion which they profess, or because they have adopted Western habits and modes of life".

And the Government of India looked upon the situation with complacency by saying that "in such cases any restrictions that Government could impose would be of infinitely less force than those which have been already disregarded."

These unfortunate results are true of a country where the large majority of people have been and are total abstainers, and where the force of religious opinion in this matter is so strong that the enforcement of total prohibition would be easier in India than in any other country in the world. Sir Roper Lethbridge, who had an intimate knowledge of India said in the House of Commons in 1889[1]:—

"I believe that even the extreme measure of the total prohibition of the sale of intoxicating liquors would not only not meet with any resistance from the people of India, but would, in fact, be most popular in that country. That, in my opinion, is the cardinal feature of the situation in India and it contrasts very strongly with the situation in this country. I ask those who think with me on the Temperance Question, those who earnestly desire to advance the cause of Temperance, and yet who shrink from any too violent interference with personal liberty, what would be our position if all our countrymen in England—not only the classes but the masses of the people—were all in favour of total prohibition? If there were no such thing as a national beverage, if there were no reality in the cry of robbing a poor man

1. Hansard—April 30th 1889. pp. 843–44.

of his beer, if there were no social customs to be destroyed by prohibition, and if in the national conscience the drinking of a dram of spirit or of a glass of beer ware held to be a sin, I say I would unhesitatingly vote immediately for total prohibition. But that is the case, and these are the circumstances in India."

But considerations of revenue were too strong for the Government of India. For various reasons explained in their proper places, the Government were in want of money from time to time. The excise revenue was easy to collect. On the one hand the cost of collection was small[1] compared with many other branches of revenue, on the other Excise revenue was free from the odium of compulsion attached to other heads of taxation. There was a natural bias in the minds of the officials in favour of it.

Besides, the Government were not slow to issue direct or indirect mandates from time to time to the Excise officials to see that the Excise revenue showed a gradual increase. Those officers in whose districts there was a fall or no proportionate increase in the Excise revenue were censured in the annual reports.[2] Promotion of these officers depended if not entirely, to some extent on the revenue results in the districts under their charge. Mr. Caine pointed out in 1889 in the House of Commons, various instances from official reports of the way in which Excise Officers were encouraged to increase the revenue.[3] The result was that the number of liquor

1. See p. 184.

2. Cf. S. C. 1871, Q, 5094.

2. Cf. Hansard April 30, 1889, pp. 834-38. *e.g.* in the Bengal report for 1888, there was a paragraph commencing thus :—"Officers deserving favourable notice for the management of the Excise Department of their various districts ;"—then followed the names of officers in every one of whose districts there was an increase in the revenue, the average being £2,500 each. Mr. Caine also showed that the statement of the Finance Member in 1888 that he looked hopefully to a considerable increase in the Excise revenue, was interpreted by the subordinate officials as a hint to stimulate the sale of Exciseable articles.

shops was either increased or kept at a high level. The Bengal Excise Commission reported that[1] "taking the province as a whole, it is not too much to say that at present there is a tendency to restrict the number of shops where there is a great existing demand, and to keep the number unduly high in those districts where the demand is small. Such a policy, if adhered to, must have the effect of encouraging consumption to a certain extent; for the decrease in the shops in the drinking districts will do little to check drinking, as the customers of the closed shops will buy elsewhere or distil for themselves, while the establishment of a shop in places where no sufficient demand exists has undoubtedly a tendency to create such a demand."

Besides, the new shops that were thus opened were located on the sides of high roads, at markets or other places of public resort, and near factories and other places where large number of workmen were employed. This gave opportunities for drinking which did not exist before, and undoubtedly tended to increase consumption. Strong evidence was given on this point before the Bengal Excise Commission and it was fully borne out by the personal observation of the members of the Commission.[2]

The same considerations of revenue led to the continuance for a long time of those Excise systems which led to increased consumption. We have seen above that the Central Distillery System under which the tax was in proportion to the quantity of spirit manufactured was more costly to the Government than the other systems. The monopoly system, which was in favour with the Government, and which prevailed in many provinces, led to a large reduction in price and hence to increased consumption.[3]

So far we have dealt with the question of liquor. But the same general remarks were true in the case of still more

1. The Bengal Excise Commission, 1884. p. 108.
2. Ibid.
3. Ibid. p. 107.

harmful drugs, like opium, and preparations of the hemp plant. The evils of the consumption of opium in India, the great increase in its consumption and other matters connected with the question will be discussed in the next chapter.

This increasing drunkenness and the increasing use of intoxicating drugs excited considerable attention. Temperance associations[1] and missionaries loudly complained of it. Indian literature was full of pamphlets and dramas illustrating the evils of drink. The Government were frequently petitioned on the matter, but without effect. Finally, the matter came before the House of Commons, where the following resolution was passed on April 30, 1889:—

"That in the opinion of this House, the fiscal system of the Government of India leads to the establishment of spirit distilleries, liquor and opium shops in large numbers of places where till recently they never existed, in defiance of Native opinion and the protests of the inhabitants, and that such increased facilities for drinking produce a steadily increasing consumption, and spread misery and ruin among the industrial classes of India, calling for immediate action on the part of the Government of India with a view to their abatement".[2]

This led to a comprehensive review of the whole policy by the Government of India. In their despatch of February 4, 1890, they accepted the following principles[3]:—(1) that the taxation of spirituous and intoxicating liquors and drugs should be high, and in some cases as high as it is possible to enforce; (2) that the traffic in liquor and drugs should be conducted under suitable regulation for police purposes; (3) that the number of places at which

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1. Cf. S. C. 1871, Qs. 4011-15, 5093, 5095, 5151. Cf. also the evidence of missionaries as well as officials before the Bengal Excise Commission, 1884. See also Hansard, 30-4-89. p. 823.

2. Proposed by S. Smith, seconded by Caine.

3. Gazette of India, March 1, 1890, p. 214.

liquor or drugs can be purchased should be strictly limited with regard to the circumstances of each locality; (4) and that efforts should be made to ascertain the existence of local public sentiment, and that a reasonable amount of deference should be paid to such opinion when ascertained.

The peculiar reservation in the last clause reveals the official bias in favour of Excise revenue, instead of in favour of public sentiment or even of public welfare. The immediate measures to be taken in furtherance of this policy were (1) the abolition of the Farming or Outstill System in places where it was found practicable to do so, (2) the gradual introduction of the Central Distillery System in its least complex form, (3) the imposition of as high a rate of duty on "country liquor" as it will bear, subject to the limitation that such duty shall not exceed the tax levied on imported liquor, and (4) the restriction of the number of shops.

Though this policy and these measures did not provide for all the evils, we see that some benefit arose from them. The number of shops had reached the highest figure by the end of March 1889—122,956. After that we find a material reduction in this number. The Excise revenue which was 1·5 crores in 1861 had risen to 2·2 crores in 1874. After that till 1889 it rose very rapidly. During the ten years before 1889 it had risen by 2 crores; in the ten years after 1889 it rose by 1 crore, though the population was larger in the second decade than in the first. The revenue derived from opium consumed in India shows similar results. It was 13 lakhs in 1861, and rose to 48 lakhs in 1874. By 1889 it had nearly doubled itself. After 1889 the increase was small, for some years.

The increase in Excise revenue was partly due to a rise in the rates of duty. Improved administration must also have increased revenue to some extent by diminishing illicit production and sale of liquor and drugs. The increase in population may also account for some increase

in revenue. But the large increase before 1889, and the steady increase after that year, were due to a greater extent to increase in consumption, as shown above, than to other causes.

The next stage in the history of excise policy in India is marked by a clear declaration of policy in a resolution of the Finance Department, dated 7th September 1905, to the following effect:—

"The Government of India have no desire to interfere with the habits of those who use alcohol in moderation; this is regarded by them as outside the duty of the Government, and it is necessary in their opinion to make due provision for the needs of such persons. Their settled policy, however, is to minimise temptation to those who do not drink, and to discourage excess among those who do; and to the furtherance of this policy all considerations of revenue must be absolutely subordinated. The most effective method of furthering this policy is to make the tax upon liquor as high as it is possible to raise it without stimulating illicit production to a degree which would increase instead of diminishing the total consumption, and without driving people to substitute deleterious drugs for alcohol or a more for a less harmful form of liquor. Subject to the same considerations, the number of liquor shops should be restricted as far as possible, and their location should be periodically subject to strict examination with a view to minimise the temptation to drink and to conform as far as is reasonable to public opinion. It is also important to secure that the liquor which is offered for sale is of good quality and not necessarily injurious to health".

By the same resolution, the Government of India appointed a committee to review the whole question connected with the excise administration in India with reference to the policy as laid down in the above extract. The measures adopted by the Government of India on the recommendations of this committee may be thus summarised:—(1) Every effort was to be made to suppress illicit methods of all kinds. (2) In order to effect this, the control of the excise staff over liquor and drugs traffic was to be increased and strengthened in all directions, and this was

to be facilitated by the adoption where feasible of the contract distillery system, instead of the outstill system. (3) Consumption was to be discouraged without encouraging illicit methods in the following manner :—(*a*) by the levy of as high a rate of duty as possible taking into account the special conditions of the locality in question, (*b*) by the reduction in the number of retail shops for the sale of liquor drugs with due regard for legitimate requirements, (*c*) by regulating and closely supervising the hours of sale, the selection of sites, and the general practices adopted in manufacture and vend, and, (*d*) by the appointment of local advisory committees wherever possible.

Excise Results.

In spite of this declared policy, we find a decided, substantial and continuous increase in Excise revenue. From 550 lakhs in 1899, the revenue had risen to 810 lakhs in 1905, when the above policy was laid down. It went on increasing till in 1913 it reached the high figure of 1275 lakhs. During the war period, the rates of excise duty were increased in consequence of enhanced tariff rates on imported articles. This partly accounts for a further increase in the Excise revenue which amounted in 1920 to 1924 lakhs. It does not require any great proof to see that making the best allowance for the increased rates in the duty, the figures show that the consumption increased in a much greater ratio than the population.[1]

Official reports[2] point out this increase in the Excise revenue as a sign of the growing prosperity of the people.

1 The average net revenue from Excise in the different periods was as under in lakhs of rupees :—

First period	193
Second period	412
Third period	855
Fourth period	1519

2. Cf. Decennial Report, moral and material progress of India, 1911-12, pp. 205-206. Also Cf. Secretary of State's despatch to the Government of India, 29 May 1914.

To the intelligent Indian, this is both ridiculous and painful. It may be true that in the West, drink is indulged in as a luxury after having satisfied the primary wants of life. In India, the condition of the large masses of people who fall victims to this evil, excites pity and causes grief. A healthy and efficient condition of life is never known to them. Being oppressed by the wants of life, and being ignorant or careless of consequences, they have recourse to the remedy which puts them in a state of temporary exhilira-tion and foregetfulness. An increase in the excise revenue in India, does not show an increased capacity on the part of the people; it shows an increasing tendency towards moral and physical degradation and ruin.[1]

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1. Refering to the small amount of Excise duty per head of population Sir. W. Harcourt said in the House of Commons during the Excise debate, 1889 :—"The fallacy of that argument has already been pointed out, because, although only a small part of the population drinks, you spread the amount over the whole popluation. We are, however, dealing with an extremely poor people, who live on a handful of rice, and whose clothing is a single rag; and 3d per head to them is probably more than 3 sh. to an English labourer" (Hansard, p. 874).

Cf. the following from the evidence of Baboo Kedar Nath Roy before the Bengal Excise Commission 1884, Vol. II. p. 31. :—(1) "There seems to be a fallacy in the very statement of the prosperity theory. It presumes that a native of this country who drinks can distinguish between his necessary expenses and his surplus income. For such a man why should we think that he would spend his surplus in liquor or drugs? Why should we not think that he would have hoarded it up in the agricultural banks had not outstill shops tempted him to use it? At the least, should it not be prudent to remove the temptation from his way? (2) Does anybody believe that as a matter of fact men of prosperous condition frequent these shops? On the contrary, are not indebted people found there? In our inspection of the 24th December 1883, of the ten persons examined among the customers haphazardly nine were indebted, and on the 29th December, the two whom I examined in the Mitapore shop were indebted".

The Pardi Taluka (Surat District) Economic Inquiry Committee, of which the author was a member, found strong evidence in support of the remarks made in the text, as recently as May 1924.

These remarks are borne out by the fact that even in years of wide-spread famine, the Excise revenue instead of showing a decrease as might be expected, shows a steady increase.

Prohibition.

The movement for temperance reform has been in existence for many years in India. It gets into activity from time to time. Temperance deputations waited in England on the Secretary of State in 1907 and 1912, and on the Viceroy in 1913. Since the reforms, this agitation has made successful progress. In nearly all the Provincial Legislatures, resolutions have been passed advocating reduction in the consumption of liquor, with prohibition as the ultimate goal. Along with this, public opinion on the question was manifisted in the boycott of liquor shops by the people, and in systematic efforts to dissuade the drinking classes from going to liquor shops. In Bombay, in accordance with a resolution of the local Council passed in August 1921, a Committee to consider the Excise policy and connected problems was appointed in 1922. The main recommendation of the Committee is as follows:—

"In the first place we are of opinion that in the interests of the community as a whole as well as in those of Government the present policy of Government with regard to the manufacture and sale of country and foreign liquor, toddy and shindi, and drugs should be altered as quickly as possible. The strong demand which exists throughout the country and among many classes of the people, as voiced by the witnesses, for an alteration in the excise policy of Government, in the direction of further restriction and in due course of the total extinction of the alcohol and drug traffic must be recognised and Government should declare that the total extinction of this traffic is the goal of its excise policy."

The Bombay Council passed a resolution in July 1924, in favour of gradual restriction of the consumption of liquor resulting in total prohibition in twenty years.

(D) STAMPS.

We hear of revenue derived from Stamps for the first time in 1797, when it yielded £1,975. This amount gradually increased; it was £684,400 in 1859. In 1860 as one of the measures to meet the financial emergency caused by the Mutiny, the law affecting Stamps was revised, and the revenue was nearly doubled. Another revision in the next year further raised the revenue to 1·57 crores of rupees.

The revenue from Stamps is derived in two ways from judicial or legal stamps and commercial stamps. The Court Fees Act of 1870 settled the scale of judicial stamps, that of commercial stamps was codified in 1879, and amended by the Indian Stamp Act of 1899. By the former Act, fees are levied on plaints, petitions, and other documents, with specified exceptions, filed before civil, criminal or revenue courts; by the latter duties are imposed on commercial transactions such as conveyances, bonds, cheques, bills of exchange, receipts, etc. In 1910, additional duties were imposed on the issue of debentures, share warrants to bearer, transfers of shares and debentures, agreements for sale of shares and securities, bills of exchange and probate.

The whole of the cost of litigation to the people and that of ensuring the official recognition of documents do not appear under this head. In the case of the former many fees are levied in cash, which appear as receipts under the expenditure head "Law and Justice". Since 1879, the fees for the registration of documents have been separated from Stamps and appear under a different head called Registration.

Out of the total revenue shown under Stamps, as a general rule, nearly 70 per cent. is derived from judicial stamps and the rest from commercial stamps. The average

net revenue from this source was as under in the different periods :—

	lakhs of Rs.
First period	202
Second period	371
Third period	600
Fourth period	885

The steady increase in this source of revenue is noticeable from these figures. The large increase in the fourth period is partly due to the greater commercial activity during the war and to the post-war boom. This increase in the Stamp Revenue has been pointed out as a sign of prosperity among the people. It has also been used to prove the contention that the people of India are very fond of litigation. One of the ways in which in the early days of their rule the British tried to endear themselves to the people of India was the establishment of regular law courts. When the confusion which prevailed in the pre-British days came to an end, and when the power of local bodies, called panchayets, for settling local disputes gradually diminished, the people naturally learnt to have recourse to the new law courts in the hope of getting justice. They took a long time before they could understand the elaborate procedure and the complicated machinery that was implanted all over India for the administration of justice. It is no exaggeration to say that very few people understand it even to-day. And though there will always exist in every country a class of men who make it their business to encourage disputes and increase litigation, it may be said that on the whole the people of India are afraid of going to the law courts. Apart from other things, they know how costly it is to fight for justice in these courts. The Court fees are high; and the complicated machinery of the Courts makes it easy for the shrewd middleman to squeeze the litigants out of their money. In criminal cases, the cost to the litigant is

further increased by the difficulty of following the magistrate in his tours.[1]

It is interesting to find that the Government of India has made the administration of justice almost self-supporting. If we take into consideration the revenue from court-fees which is usually about 70 per cent. of the stamp revenue, and add to it the departmental receipts under the expenditure item "Law and Justice", we find that the total is very near the gross expenditure shown under this item, "Law and Justice."

The object of the Government in increasing the Court Fees has been to recoup themselves as much as possible against the increasing expenditure on "Law and Justice".[2] It is difficult to accede to the opinion that the tax on legal proceedings ought to be maintained at a high level, because it discourages litigation. It goes against the opposite and true maxim, that justice ought to be made accessible to everybody, however poor.[3] The system of forma pauperis exists in India, but it is only in exceptional cases that it is availed of. A poor man sometimes prefers not to go to the law than to declare himself so poor, as to benefit by this system. It may also be true that in many cases, the cost or part of the cost is ultimately paid by the loser; but the real difficulty comes in instituting a suit, when a poor man, however confident of his cause, finds it impossible to go to the courts for want of money.

The increase in the revenue from commercial stamps reflects the increasing commercial activities of the country. In view of the recent movements to develop our trade

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1. The District Collector is the executive and revenue authority in his district. He is also the Magistrate. In his former capacity he tours round the district (whose area is generally large), and holds his criminal court, wherever his "Camp" may be. The same is true of his subordinates.

2. Cf. S. C. 1871, Q, 7447.

3. Cf. S. C. 1873, Q. 916.

and industry, and in view of the immense possibilities of improvement in that direction, the revenue from this source is likely to increase in course of time.

Under the Reforms, the whole of the stamp revenue from both the sources is a provincial receipt. Among the sources of revenue allotted to the provinces, stamps is considered to be the most capable of expansion. This can be illustrated by the fact that in 1922, the stamp duties were increased in some provinces, including Bombay. So far as commercial stamps are concerned, the want of uniformity in the rates in the different provinces is a posssible danger in the interests of trade and industry, but provision has been made to secure this uniformity by Imperial legislation.

(E) REGISTRATION.

As said above the revenue from the registration of documents was separated from that under Stamps in 1879. For the purposes of registration documents are divided into (1) those of which the registration is compulsory for the validity of the deed, (2) and those which are not required by the law to be registered. The average net revenue from this source during the different periods was as under :—

	lakhs of Rs.
Second period	14
Third period	24
Fourth period	46

The administrative charges for the collection and management of the registration department are very heavy, being generally speaking more than 50 per cent. of the gross receipts. This shows that a very large establishment has to be maintained for this purpose.

CHAPTER XVI.

OTHER SOURCES OF REVENUE:—(A) OPIUM.

Opium Revenue Sacrificed.

On September 20th 1906, an Imperial Decree was issued in China which commanded[1] "that within a period of ten years the evils arising from foreign and native opium be equally and completely eradicated". This act may be taken to be as great and beneficial in its consequences to humanity as the resolution to abolish the Slave Trade about a century ago.

Steps were taken on the one hand to gradually reduce the area of opium cultivation in China,[2] and on the other to reduce the importation of foreign opium in China, in the same way. In 1907, the Government of India agreed to reduce the export of Indian opium to China by 5,100 chests a year, being one-tenth of the gross export to China from India at that time. The Chinese Government took steps to reduce the import of Persian or Turkish opium in China with a view to extinguish the trade in 10 years. At the same time arrangements were made for a proportionate reduction of the production and consumption of opium in China herself.

Since then, international arrangements have been made to put a stop to the production and consumption of opium in the world, except for medicinal purposes. The work of the Shanghai Conference of 1909, of the Hague Conference of 1911, of the Treaty of Versailles and the League of Nations may be mentioned in this connection. In spite of all this it is unfortunately true that the opium habit has not yet been completely eradicated.

However, we have reason to be glad at the results achieved so far, and at the honourable sacrifice made by the Government of India. But, however glad we may be,

1. P. P. Cd. 3881 of 1908.
2. Cf. P. P. Cd. 4316 of 1908 and Cd. 4702, 4967 of 1909.

we must record painfully that up to 1907, the Government of India derived a large revenue from opium, especially from opium exported to China. The importance of this revenue will be realised when we remember that up to 1884, the revenue from Opium was second only to that from Land. After 1884, Salt had the second place and Opium the third.

Early History.

We shall not enter into the controversy whether the opium habit existed in China and India, before the advent of the Europeans to Asia.[1] We may admit that the evils of opium were known in Asia before the Europeans came. But the fact remains that the evils were not widely spread till first the Portuguse (1537), and then the other European nations established trade relations with China. The growth of the vice in China, alarmed the Chinese Government to such an extent that in 1729 an edict was issued prohibiting opium smoking.[2] Another edict of 1799 prohibited the import of opium in China.[3] But in spite of these edicts, opium was smuggled into China, and gradually the traffic became so well established that the Chinese officials connived at it.

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1. The following account has been taken from papers in the Report of the Opium Commission, 1894.

2. The vice took this form in China. It may be noted that opium eating was more prevalent in India, but as we shall see later opium smoking was not unknown.

3. Cf. Opium Commission Report p. 121. The import of opium in China led to the export of silver, and the idea that the export of precious metals means national impoverishment was prevalent at the time in China. It has been argued that this was a consideration with the Chinese Government in prohibiting the import of opium in China. But even if this was true, the Chinese Government were not blind to the intrinsic evils of opium. The edict of 1799 contains a very strong denunciation of the opium habit as morally and physically degrading.

After the conquest of Bengal and Bihar in 1758, the East India Company obtained the monopoly in Bengal opium. This was at first worked by a system of contract, but in 1799 Lord Cornwallis introduced a direct State agency. The monopoly was with regard to the production of opium and not with regard to its export, as we shall see later. Till 1830, the number of chests sold by auction at Calcutta was about 4,000 a year, but from this time an important change was made in the policy of the Government with regard to opium.

The large opium-producing tracts in Central India, were in the hands of Native States. During the early years of the 19th century opium from this part of the country known as Malwa Opium, did not enter into great competition with the Bengal opium of the Company. This was partly due to the confusion prevailing at this time in this part of the country, and partly to the measures taken by the British to prevent Malwa Opium from reaching the coast, and to prevent British subjects or British ships from having dealings in it. After 1818, the Native States concerned became the allied and protected states of the British, and the old policy had to be relaxed. With a view to monopolise the purchase of Malwa Opium for export, Government agents were now appointed in the Malwa country, but this plan failed on account of the competition of Indian dealers. An attempt was then made to enter into treaty arrangements with the Native States to limit the production of opium in their territory and to give the Government of India the monopoly of the export trade. This plan made the British very unpopular with the States concerned, and had to be abandoned. At last in 1830, they established what is known as the transit-duty system. The main object was to keep up the price of Bengal opium in the foreign market, by subjecting Malwa opium to duty, by regulating its passage to the sea, and by preventing it from being smuggled into British territory.

At the same time on account of the increasing competition of Malwa opium the Government of India took steps to increase the cultivation of the poppy in their own area, which at once became double, and was four times as great in a few years.

The import of opium in China was legally prohibited; but the trade went on increasing, and by this time it was entirely in the hands of British merchants.

From the earliest times, the Chinese were afraid of entering into closer relations with Europeans. It was after great hesitation that the Europeans were allowed at certain specified ports only for trade.[1] The Chinese were aware of what had happened or was happening in India, Burma, Java, Sumatra and many other places in consequence of the advent of the European nations. Their independence was dear to them, and they were wise in keeping the foreigner at arm's length.

The restrictions imposed by the Chinese on the British were resented by them. With the increase of British trade and power in the East, their pretensions rose, and frequent cases of friction took place. From an Imperial Edict of 1829, it is evident that the Chinese regarded the British as the most "fierce and unruly," and "proud and domineering" of all the foreigners. On the one hand the Chinese Government was determined to maintain its exclusive policy, on the other the British made continued efforts to force themselves into closer and freer relations. The chief article in which the British traded was opium, which could not be legally imported in China. One of the main causes of the increasing tension between the British and the Chinese was the opium traffic.

It is difficult to see how China was wrong when she refused the claims of the British as regards closer deplomatic relatious in 1834 and 1836. It cannot also be said

1. **Opium Commission, p. 126.**

that China was wrong when in 1839, she got possession of the British opium at Canton, an article the import of which was prohibited by her laws. Soon after this, in view of the high tone of the British, China declared all trade with the British at an end.

This resulted in the First Chinese War (1840-42), otherwise known as the Opium War. Peace was made in 1842 by which Hong Kong was ceded to the British Government, and the British got rights to trade with five other ports. Besides the general indemnity of war, the Chinese had to pay 6 million dollars for the British Opium, which they had siezed in 1839. It may be noted that the ordinary charges of this war were taken from India.

The British Government (Lord Palmerston) asked their representatives at the Peace to make arrangements with the Government of China[1] "to legalise the importation of opium upon payment of a duty sufficiently moderate to take away from the smuggler the temptation to endeavour to introduce the commodity without payment of duty". The Emperor of China was so much against such a measure that the Chinese Commissioners did not think it wise to approach him on the matter at that time, but they gave an undertaking in the following words[2]:—"Whether the merchant vessels of the various countries bring opium or not, China will not need to enquire or take any proceedings with regard thereto".

The causes of the Second Chinese War (1856-58) had little to do directly with opium. But as before the English Government were anxious to get the opium trade legalised. Lord Clarendon wrote to Lord Elgin (the Viceroy) as follows:—"But there would be obvious advantages in placing the trade upon a legal footing by the imposition of a duty, instead of its being carried on in the present

1. Opium Commission, App. p. 210.
2. Ibid. p. 211.

irregular manner". The treaty which was made in June 1858 did not contain any clause relating to opium, but provision was made for the revision of the Chinese tariff. Agreement on this question was arrived at in November of the same year, by which an import duty of 30 taels (about 10 £ or 5 per cent.) per chest was to be levied on opium. Thus at last the British succeeded in getting the traffic in opium legalised. But the hesitation of the Chinese is still evident from the further clause of the agreement that whenever the drug was moved from the port of arrival, it must be accompanied by Chinese alone.[1] "This was in order to prevent Europeans pushing the trade in the interior, and to keep it, when outside the areas of foreign concessions or settlements of the open ports, entirely in Chinese hands, and fully subject to Chinese control".

When the negotiations for the revision of the tariff were opened in 1868, the Chinese Commissioners pressed for putting a stop to the opium trade by prohibiting all export from India. But in lieu of this, they were allowed to increase the import duty to some extent.

In 1876, the Chefoo Convention was made by which the existing relations were confirmed, and improvements in the system of collection of the opium revenue in China were made. The ratification of the convention took a long time, until in 1885, an additional article was embodied in it, by which the arrangements were made still more precise. Before this, in addition to the import duty there were different transit duties (known as likin) in the interior of China. All these were now consolidated and a duty of 110 taels per chest was to be paid.

With the arrangements of 1885, it was believed that the system of coercion, employed by the British Government towards the Chinese Government in the matter of the opium traffic, had come to an end. On April 10th 1891,

1. Ibid. p. 131.

the Foreign Secretary announced in the House of Commons on behalf of H. M.'s Government that—"The Chinese at any time may terminate the Treaty on giving 12 months' notice, and to protect themselves they may exclude it altogether. This, I think I may say, that if the Chinese Government thought proper to raise the duty to a prohibitive extent, or shut out the article altogether, this country would not expend 1 £ in powder and shot, or lose the life of a soldier in an attempt to force opium on the Chinese".

In bringing about this result, the Society for the Suppression of the Opium Trade deserves great credit. Before 1874, the opium traffic was attacked in a variety of ways in the Parliament and the Press.[1] In that year, an organised movement was begun with the foundation of the Society. An extensive propaganda was undertaken by this Society and the attention of the Parliament was frequently drawn to the matter. When the arrangements with China in 1885 were over, the Society saw its first triumph in as much as the system of coercion had come to an end.

The Society now directed its attack against the Government patronage and promotion and sale at the sources of the trade in India. At the same time they drew the attention of the Chinese Government to take measures to stop the spread of the consumption of opium in their country. As a result of the continued agitation of the Society, a Royal Commission was appointed in 1893 to investigate the Opium Question in all its aspects.

On the question of the opium trade with China, the Commission came to the following conclusions[2] :—(1) that the importation of Indian opium was allowed by the Chinese Government; (2) that it was not imposed upon it it by intimidation or pressure of any kind (that is, after

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1. Ibid. pp. 163-165.
2. Ibid. pp. 60-61.

1885); (3) that the withdrawal of the Indian trade would have no practical effect on consumption in China ; (4) that the withdrawal would be unjust to the Indian cultivators of poppy; (5) that it was very difficult to find means to replace the Opium Revenue in India;[1] (6) that the people of India were not willing to submit to further taxation on this account; and (7) that it was not likely that the English Government would contribute towards the cost of carrying out the measure.

We have seen under what circumstances the Chinese Government allowed the importation of opium, and how the coercive policy came to an end in 1885, when the evil had taken deep roots in China. The possibility that if the Indian trade were stopped the Chinese would still continue to indulge in opium either by extending cultivation in China or by importing from other countries, is a curious argument for the continuance of the trade. The possibility that A. would either commit suicide or be poisoned by B.C.D. and others, is no justification for X. to administer the poison. The poppy cultivators in Bengal were the

1. The force of the financial argument was strongly brought to the notice of the Commission by Sir. D. Barbour in these words :—"We may fairly take the total net revenue from opium at 6 m. Rx. yearly at the present time. I have no hesitation in saying that it would be impossible to carry on the administration of India if the revenue was reduced by 6m. Rx. As it is, there is considerable difficulty in making revenue balance expenditure ; and for my part I would positively refuse to attempt the task if the revenue were reduced by 6 m. Rx. Some revenue could, of course, be raised by additional taxation, if the taxation were imposed in consequence of some disaster which we could not have avoided ; but the imposition of heavy or perhaps of any considerable amount of taxation on the people of India, in order to make good the loss of revenue caused by interference with the consumption or export of opium, would cause most serious discontent among the people of India. I should be most unwilling to face the consequences of taxation imposed for such a purpose." Cf. Ibid. p. 57.

creatures of the Government of India; the large area on which they cultivated poppy could have been with great advantage to India utilised for growing foodstuffs, which were in such great demand, especially in times of famine. The Native States were completely under the thumb of the British Government and they could not have objected to a humane policy. The financial argument was the strongest, and it shows that the extravagant financial policy of the Government of India had made it necessary for them to continue to derive a large revenue from this immoral source.

In accordance with the views of the Commission, no steps were taken so far as the trade with China was concerned. It was left for the Anti-Opium Society and others to cultivate opinion, till at last the Chinese Government took the initiative in 1906, as said in the beginning of this chapter.

Opium Revenue in India.

We have traced so far the reasons which made the existence of the opium revenue in India possible. We shall now see how the revenue was raised in India.

As pointed out above, a strict Government monopoly was established in Bengal in connection with opium. Neither the cultivation of poppy nor the manufacture of opium was permitted except for the Government. The cultivators entered into annual engagements with the state, in which they undertook to cultivate a certain area, and to deliver over their whole produce at a specified price according to quality. The cultivator was assisted by a pecuniary advance, which was deducted from the price of the opium when delivered.

The crude opium thus delivered by the cultivators was manufactured into "provision" opium for the market at the headquarters of the two opium agencies in Patna and Ghazipur. A portion of this "provision" opium was

issued for consumption in India, under Excise Regulations, but the bulk was sent to the Government stores in Calcutta where it was sold at monthly auctions, for export only. The difference between the auction price and the cost of opium constituted the revenue from Bengal opium. We see that the area devoted to poppy cultivation was entirely under Government control.

The other source of opium revenue was that from what was known as Malwa opium. This term acquired a special meaning. It included opium produced in any of the states of Central India, whether within or without the limits of Malwa proper. Opium produced in Rajputana and Baroda also came under this category. The term was applied to opium from these places, which was brought into British territory, under the pass-duty system either for local consumption in British India, or for export to China and other countries.

We have seen above the circumstances which led to the establishment of the pass-duty system. This system was possible because of the geographical position of the opium-producing states, none of which has direct access to the sea. The policy in connection with the duty was to take the highest duty that the trade could legitimately bear, the duty being assessed with direct reference to the prices realised for the Bengal opium at the Calcutta sales.[1]

We shall now consider the revenue results from opium. During the first period there was a general impression that the revenue from this source was peculiarly uncertain and highly precarious. It has been acknowledged, however, that the serious fluctuations which took place in the opium revenue during the first period were directly caused by administrative mistakes and by the absence of any settled policy on the part of the Government.

1. Ibid p. 32.

From an insignificant sum, the opium revenue had grown to more than 2 m. £ by 1838. After a temporary depression in 1839, due to the Chinese War, it went on steadily increasing up to 1855.

After 1852, frequent vacillations of policy took place in the management of the opium department. The number of chests sold was rapidly increased during 1852-55, was greatly reduced during 1856-60, and again increased during 1860-67. These fluctuations in the quantities sold had their effect on the price and consequently on the revenue. The quantity depended on the extent of the crop and produce, which varied with the season and the area under cultivation. The opium crop is greatly influenced by irregularities of the season, which are frequent, while the area under cultivation also changed, not being regulated by any uniform system.

The principles on which the opium revenue ought to be administered were laid down by Sir Cecil Beadon (Lt.-Governor of Bengal) in his minute of 18-4-1867. He pointed out that the quantity of opium brought to market ought to vary very little from year to year, and to secure this he advocated the maintenance of a permanent reserve, from which the deficiences of bad seasons would be supplied. This quantity was to be determined by the price obtained, and the price to be aimed at was such as would not provoke foreign competition or stimulate production in China. Rs. 1,200 per chest, according to him, would fulfil these conditions; and he also estimated that 48,000 chests should be brought to sale every year, and that when a sufficient reserve stock had been accumulated this number might be gradually increased. This policy was accepted by the Government of India in 1867, but was not carried into full effect till 1875.

Considerable confusion was caused in the finances during this period, on account of this unsettled policy of the Government with regard to the opium revenue. The

idea about the precariousness of this source of revenue got such deep roots, that the opium revenue was deliberately underestimated[1]. There were many years during which a deficit was foreseen, additional taxation was imposed, and the opium revenue gave a fat surplus. Out of the seven years, in the first period, during which there was a surplus, all except one were years when the opium revenue considerably exceeded the budgetted figure. In this period of 14 years, not considering the year 1866, when the financial year was changed from May to April, there were only two years when the opium revenue was less than expected, and three when it was very nearly the same; whereas during the remaining eight years, the actual revenue was much more than what was estimated, the excess during four of these years being nearly a crore, and in the other four more than a crore.

In the second period, we notice fluctuations in the opium revenue which are no less important. The new policy of keeping a reserve, and of regulating the number of chests to be sold had been adopted. But there were other reasons which had effect in this period. In the early years, especially 1878-81, the revenue from opium was exceptionally large. In 1880, the highest figure had been reached—8·4 crores. This was due to a succession of good crops. In 1882, however, fears were expressed that the opium revenue could not be expected to continue at that high level[2]. The price paid to the cultivators for crude opium had to be raised from Rs 4-8 to Rs. 5 per seer (2 lbs). It was difficult to extend the area of cultivation. There was increasing competition from Persian and Chinese opium. Besides, the force of the agitation of the Anti-opium Society in England, had now begun to be felt. On account of these causes, we see a gradual fall in the opium revenue for several years

1. Strachey, Finances and Public Works in India, p. 252.
2. F. S. 1882, pp. 30-41.

after 1883. There is a remarkable fall after 1889 and 1894. In both these years a change had come in the Excise policy of the Government of India, which had the effect of discouraging the increasing consumption of opium in India. Though this policy could not have produced great effect on the opium revenue, it is likely that it had some indirect effects. The more important cause of the decline in revenue after 1894 was a succession of bad crops.

In the second period, however, the fluctuations in the opium revenue did not attract that attention which they did in the first. This was due probably to the fact that in the second period, the Government were busy with another and more important cause of fluctuations in their finances—Loss by Exchange.

The fluctuations in the Opium revenue in the third period are due to other causes. In accordance with the agreement of 1907, the export of Indian opium to China was being steadily reduced. From the financial point of view this meant that an important source of revenue to the Government of India was gradually diminishing. This was fully realised when the agreement of 1907 was made and it was then believed that this loss would be made up by the natural growth of other sources of revenue. In 1910, however, chiefly on account of the diminishing opium revenue additional taxation was imposed. The duties on liquor, tobacco, silver and petroleum were increased.

For a time, however, the Government found themselves in the fortunate possession of large windfalls from opium. The diminishing supply of Indian Opium in China led to higher prices of that article in the Chinese market; and consequently the Government of India realised a large sum per chest at their monthly auction sales in Calcutta. This led to quite unforeseen results in as much as the phenomenal price of Rs. 3,827 per chest was realised at one time compared with the normal price of about

Rs. 1,200. The effect of this is to be seen in the sudden additions to revenue during this period, particularly during the years 1910, 1911 and 1912. It may be noted here that a sum representing about two-thirds of these Opium Windfalls was utilised to reduce debt, and the remaining was spent on education, sanitation and such other purposes.

Without going into the details of the subsequent developments in relation to China, we may note that the export of Indian opium to China came to an end in 1915 as contemplated in the agreement of 1907. Opium in small quantities chiefly for medicinal purposes continued to be exported and this accounts for the existence of this source of revenue which now holds a subordinate place in Indian finance. In spite of what has been said above we observe that there is a substantial increase in the opium revenue from 1916 compared with the years immediately preceding. This is due to the fact that the Government of India found it possible during war time, when the Turkish supply was closed, to develop other markets for Indian opium, chiefly London. In addition to this, the Government of India has recently made arrangements for the supply of opium to the Governments of the Straits Settlements, Hong Kong, Dutch Indies, Siam, British North Borneo, etc.

Consumption of Opium in India.

We have so far not dealt with the consumption of opium in India. This is regulated by Excise rules, and the revenue from opium consumed in India is shown under "Excise".

The main features of the Excise Regulations in connection with opium are that only Bengal opium provided by the state, or Malwa opium which has paid pass-duty, should be sold. The number of shops for the retail sale of opium in each district is fixed by the Government. The right to sell is disposed of either by auction, or by tender or on payment of a fixed fee for the license. The price

at which Bengal opium is issued to retail vendors varies according to the facilities for smuggling, but is always considerably above the cost price to the state.

From the "provision" opium made at the Government factories, the Excise Department gets a certain amount every year for internal consumption. That part of the sale proceeds of opium sold in the Excise Department, which is supposed to represent the cost price to the state is credited to the "Opium Revenue"; the rest is credited to "Excise". In 1856, the revenue from this source was nearly 14 lakhs; in 1861 it rose to 21 lakhs. By the end of the first period, it had more than doubled itself. From 1875 to 1888 it went on increasing at a very rapid rate. In the former year it was 44 lakhs, in the latter 94 lakhs. In 1889, the Excise Administration of India, including the increasing consumption of opium was condemned in the House of Commons. In 1895, following the recommendations of the Opium Commission some steps were taken to discourage opium-smoking in India. We, therefore, find that after 1889, the rise in Excise Opium revenue is very gradual and small. By 1898 the figure had reached 100 lakhs, and thereafter it began to increase at a rapid rate, nearly doubling itself in 1913, when it amounted to 194 lakhs. It is nearly 250 lakhs in recent years.

Though the Government of India have co-operated with the Chinese Government in putting a stop to the consumption of opium in China, little seems to have been done within India herself in a similar direction.

The Opium Commission came to the conclusion "that whilst the use of this drug is more pronounced amongst certain classes and in certain localities than elsewhere, it is widely scattered over the length and breadth of India". In this connection, the estimate of the Opium Commission regarding the consumption of opium in India is of interest. The average consumption per head of population in British India in 1892 is shown to be 27 grains. The largest

consumption was in Assam (141 grains); the smallest in Madras (14 grains). Bengal, Oudh and North-West Provinces come in the lower grade; Berar and Bombay appear in the higher grade. The present consumption must obviously be larger.

The Many evils of opium need not be discussed. To realise the extent of the evils in India, we shall quote as an illustration, the description given by Mr. Caine of an opium den which he visited in Lucknow in 1888[1]:—

"We enter with the rest, and find ourselves in a dirty courtyard, round which are ranged 15 small rooms. The stench is sickening, the swarms of flies intolerable, and there is something strange and weird about the faces of those who are coming in from the street. It dawns upon me, that I am in yet another and different "Government" Bazar, and that for the first time in my life, I am within the walls "of an opium den." At the entrance sits a comely Chinese woman, whose husband is busy showing the arriving customers into the least crowded of the side rooms. Before her is a table, covered with copper coins. She is veritably "sitting at the receipt of custom". About half the copper coins go (to) the Government Treasury at Calcutta, the other half going to the Government tax collector, the opium farmer. I obtain permission to go over the whole premises, and enter the first of the small rooms. In the centre of the room, which has no window and is very dark, is a small charcoal fire, whose glow casts a lurid light on the faces of nine human beings, men and women, lying in a circle like pigs in a sty. A young girl about 15 years of age has charge of each room, fans the fire, lights the opium pipe, and holds it in the mouth of the smoker who has last come in, till his head falls heavily on the body of his predecessor. Two or three are in various stages of preliminary drunkenness. I have been in the East End gin palaces on Saturday nights—I have seen men in various stages of delirium tremens, I have visited many idiot and lunatic asylums, but I have never seen such horrible destruction of God's image in the face of man, as I saw in the "Government" opium dens of Lucknow To my dying day I shall carry the recollection of the face of a handsome young woman of 18 or 19 years, sprawling on the senseless bodies of men, her fine brown eyes flattened and dulled with coming stupor, and her lips drawn back from her glittering white teeth. Another girl

1. Hansard, 30-4-1889.

of the same age was sitting in a group of newly-arrived smokers, singing some lewd romance as they handed round the pipe. I went from room to room and counted 97 persons of both sexes in various stages of opium stupor. Green hands could get drunk for a penny or less, but by degrees more and more opium is needed, and the callous keeper of this hideous den showed us men whom 180 drops of thick opium, mixed with tobacco, hardly sufficed to intoxicate. I came out staggering and faint with the poison-laden atmosphere.''

In spite of these evils, the Opium Commission reported a few years after, that the use of opium in India was moderate and that prohibition of opium was not desirable, because "the obstacles, administrative, financial, and political, to a system of prohibition appear to us to be at present insurmountable.[1]"

The same opinion seems to prevail till to-day and the revenue from Excise Opium is increasing at a very rapid rate. As pointed out above it was 100 lakhs in 1898; it is more than 200 lakhs at present. It is true that opium is largely used as a domestic remedy in India, but the present consumption in India cannot be said to be only for medicinal purposes. In 1898, the Opium Commission estimated it at 4,000 chests; in recent years it has been more than 9,000 chests.

It is a curious irony that when the Government of India sacrificed crores to help the Chinese to be relieved from the opium vice, they should hesitate to remove the same vice, from India, where it is possible to do away with it at much less cost. Let us hope that the growing opinion in favour of a policy of prohibition in connection with liquor and drugs will have its effect at an early date.

(B) FORESTS.

The Forest Department was created in 1864. One great item of expense in the beginning was for the demarcation of forests, the vast areas of which were not

1. Report p. 67.

then properly ascertained. The Forest Law of 1878 gave large powers to the state, and from that time great impetus was given to the systematic conservancy of forests. The Famine Commission of 1880 had urged the importance of forest conservancy as a safeguard for agriculture. They had laid down certain principles in this connection which were accepted by the Government. In 1894, in considering Dr. Voelcker's report on the improvement of Indian agriculture, the Government of India declared that "the sole object with which state forests are administered is the public benefit." In order to carry out this object the forest policy aims at giving reasonable facilities to the public for the use of forest produce on the one hand, and at preserving the forests "as sources of fuel and timber, and as agencies by means of which rainfall water may be stored in the soil and given off subsequently by gentle flow."

For the purposes of administration, the forests have been divided into four classes :—

(1) Forests the preservation of which is essential on climatic or physical grounds,

(2) Forests which afford a supply of valuable timbers for commercial purposes,

(3) Minor Forests ; and (4) Pasture lands.

In times of famine, the forests are thrown open for the free grazing of cattle, and for the use of edible products by men in distress.

The forest revenue is derived from the sale of timber and other forest produce, and by fees for grazing. The average net revenue from this source in the different periods was as under :—

	lakhs of Rs.
First period	**14**
Second period	**49**
Third period	**105**
Fourth period	**168**

On account of the causes explained above, the state spends the greater portion of the Forest revenue (usually about 60 per cent. of the gross receipts) on the preservation of the forests, for which a large establishment is maintained.

In spite of this expenditure, the Industrial Commission has found that an incomplete use has been made of forest resources, that industries dependent on forest produce have not been developed, and that the necessary link between forest research and commercial exploitation of forest produce is wanting.

Under the Reforms, Forest revenue and administration is a provincial head in the charge of ministers.

(C) TRIBUTES.

The tributes from the native states are for the most part permanent, and fixed by treaty arrangements. A portion of them is paid for the maintenance of military forces in the territory of the native states; a portion for British protection or in commutation of military service. The average receipts in the different periods from this source amounted to :—

	lakhs of Rs.
First period	72
Second period	75
Third period	90
Fourth period.	90

PART IV.—GENERAL REVIEW.

CHAPTER XVII.

GENERAL REVIEW.

Total Revenue and Expenditure.

We have so far studied the main items of revenue and expenditure of the Government of India. Though the individual items have been thus discussed separately, they are obviously parts of the whole financial mechanism, and hence are closely interconnected. In order to have this collective idea at a glance, the reader is referred to the three graphs given at the end of this volume. The first graph shows the growth of different heads of revenue and their position as regards the total revenue, as well as in relation to one another. The second and third graphs similarly show the position of the main heads of expenditure and of the different kinds of debt respectively.

Tables showing the total revenue and expenditure with the annual surplus or deficit since 1861 are given in the appendix. The average figures for the different periods work out as under :—

in lakhs of Rs.

Period	Revenue	Expenditure	Surplus + Deficit −
1st.	47,21	47,20	+1
2nd.	79,77	79,99	−22
3rd.	116,31	112,92	+3,39
4th.	164,40	169,60	−5,20

The great increase that we find in the figures for 1875 over those for 1874 is due to the fact that in the second period the gross receipts and expenditure on railways and irrigation works were included in the accounts, whereas in the first only the net result was shown on the

expenditure side. In the third and the fourth periods the method of presenting the figures in the Railway and Irrigation Revenue Accounts was different from that in the first two. It contained various items as explained in a former chapter. A comparison between the total figures of different periods therefore becomes difficult, though within each period they may be compared with advantage. The average increase in revenue within each of the periods was as under :—

	Lakhs of Rs.
First period	50
Second period	170
Third period	165
Fourth period	1205

The increase in the second is partly accounted for by the inclusion of the gross railway and irrigation receipts referred to above, and partly by increased taxation due to the exchange losses, and the frontier policy. In the third period we have to take into consideration the revenue surpluses due to the currency policy, the opium windfalls, the fresh taxation due to the expected loss in the opium revenue, and the natural increase in the different branches of revenue. The small apparent decrease in the third period compared with the second is explained by the new arrangement in showing the railway and irrigation figures.

In the first two periods though there are years of surpluses and deficits, on an average the revenue and expenditure totals balance each other approximately. In the third period, however, with the exception of the year 1908, we have a series of large surpluses on account of causes already explained, the average annual surplus being 339 lakhs. We cannot ascribe any great importance to the surpluses which we notice in the first three periods. The usual practice with the Finance Member is to underestimate revenue and overestimate expenditure. At the

end of the year this practice would as a rule give a surplus.[1] This was often justified in the first period by the uncertainty in the opium revenue, and in the second by the fluctuations in exchange. This policy was continued in the third period and was one of the causes of the large surpluses in that period in addition to those already mentioned.

During the fourth period, on account of war activities, the various branches of expenditure expanded very rapidly, so much so that during a period of seven years only (1914-1920), the expenditure nearly doubled itself, or, in other words, it rose from 124 crores in 1914 to 232 crores in 1920. This means an average annual increase of more that 15 crores. In order to keep pace with this extraordinary rise in expenditure, the Government had to devise various means to increase their resources, namely, taxation, loans, and inflation. For the present we are concerned with the first as the cause of the increase in revenue from 122 crores in 1914 to 206 crores in 1920. Out of this increase of 84 crores, nearly half was due to fresh taxation, the remaining portion may be accounted for partly by the natural increase in existing sources of revenue, and partly

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1. Cf. Government of India letter to India Office, 13th October 1876, published in P. P. 449 of 1893:—"Moreover, it is our established practice, a practice enjoined upon us by Her Majesty's Government, and which is indeed plainly dictated by prudence, to frame our Estimates so cautiously as, in effect, to reserve, for unforeseen contingencies during the year, some margin of revenue in excess of the surplus shown by the Estimates. Unless this policy be abandoned, our accounts will continue to be, as they have for some time been, and as in our judgment they ought to be, somewhat more favourable than the Estimates. In other words, if, with the exchange at 1sh. 8½d. we can expect only a bare equilibrium of revenue and ordinary expenditure upon the accounts, we could not (without changing the principles on which our Estimates are framed) show the desired surplus upon the Estimates, with a less favourable exchange, probably, than 1sh. 9d. the rupee."

by increased receipts in spending departments, particularly from railways. In spite of this, we notice that the revenue was not sufficient for the expenditure in this period, with the consequence that we have an average annual deficit of 520 lakhs.

The figures of total revenue and expenditure from 1921 are for the Central Government only, the provincial accounts having been separated, and hence the decrease compared with 1920. The legacy of the war period is however distinctly visible in the shape of large deficits since 1921, and increased taxation to meet them. Though the more natural remedy of retrenchment has come into operation from 1923, complete equilibrium has not yet been restored.

War Finance.

We have spoken of the great increase in expenditure since the War, and consequent heavy deficits in spite of large additional taxation. It will not be out of place if we take stock of the whole position in brief at this stage.

According to the Inchcape Committee new taxation estimated to yield 49 crores of rupees annually has been imposed since the War. We have pointed out in detail in the different chapters dealing with Revenue the extent of the increase under different heads. The two chief sources which were availed of for this purpose were Customs and Taxes on Income. The deliberate policy by which Customs was assigned a subordinate place in the Revenue System of India had to be given up under the strain of the War, with the consequence that the great potentialities of this source were revealed, the yield from it in 1920 being higher than from any other source of revenue including Land. In connection with non-agricultural incomes, the principle of progression was applied with great effect, and the Super-tax was imposed on large incomes; this source is now second in importance to the Central Government.

But these increased resources were not sufficient to meet the phenomenal rate at which expenditure was increased in the different departments to which detailed reference has been made in the chapters dealing with Expenditure. The following table will show at a glance the extent of the increase under the main services[1] :—

	Expenditure in 1913-14 lakhs of Rs.	Expenditure in 1922-23 lakhs of Rs.	Excess in 1922 over 1913. lakhs of Rs.
1. Debt Services (including interest debitable to Commercial Departments) ...	21,24	43,77	22,53
2. Pensions (including military non-effective charges) ...	8,45	13,14	4,69
3. Commercial Departments ...	35,00	79,19	44,19
4. Charges for collection of revenue	3,17	5,74	2,57
5. Civil Administration ...	8,75	14,49	5,74
6. Military Services (effective).	27,02	64,47	37,45
7. Payments to Provincial Governments	59	63	4
Total...	104,26	221,45	117,19

The natural consequence of this great divergence between the expenditure and the revenue resources of the Government was a series of deficits in the accounts of the Government aggregating nearly 107 crores as estimated in March 1923, the annual figures of which are given below :—

	Deficit in crores of Rs.	
1918	6	
1919	24	
1920	26	
1921	27·6	
1922 R. E.	17·5	
1923 B. E.	5.85	anticipated deficit on the existing basis of taxation.
Total...	106·95	

1. This table has been adopted from the Report of the Inchcape Committee.

These deficits do not tell the whole tale. If unproductive expenditure like that on New Delhi be debited to revenue, and if the deficits of the Provincial Governments since the Reforms, be taken into account, we shall realise the significance of the "rake's progress" that we have made during these years.

In order to meet this total deficit of 100 crores[1], the Government of India adopted those very methods which have led to so much unrest and trouble in Europe, namely, taxation through inflation. They issued 31 crores of paper money supported by what are known as "created securities," that is, with no real assets behind the issue. The rest of the deficit was met by loans, of which a large portion was in the form of Treasury Bills held by the public[2]. In a country like ours such a large holding of Treasury Bills might lead to serious danger, as it is not always possible to renew maturing bills even with a very high rate, in which case, the Government will be compelled to issue more paper currency, which means taxation by inflation. It may also be noted that part of the loans due to the deficits is in the form of early maturing bonds which have to be either met or renewed.

Looking from another point of view we may say that the debt due to these deficits involves a large annual burden to the revenues, amounting to 5½ crores. To this extent, therefore, taxation has to be kept up at a high level or expenditure has to be cut down.

Another consequence of these deficits is the effect on the credit of the Government both in and outside India

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1. Less that of 1923-24, which was covered by doubling the Salt Duty.

2. They amounted to:—

Crores.	
54	in March 1922.
22	in March 1923.
2	in March 1924.

with the result that the Government have to pay a higher price for their loans either to cover these deficits or for new capital expenditure. The amount of capital expenditure which may be incurred for developing the resources of India is unlimited. This must come from the savings of the people. It is possible to borrow abroad for this purpose as we have done in the past, but the interest charges on such foreign loans and their repayment in due course must necessarily be made out of the future resources of the country. A succession of large deficits obviously diminishes the capacity of the country to spend on productive purposes.

In the words of Sir Basil Blackett "the deficits of the last few years have brought in their train a certain amount of taxation by inflation, a heavy annual charge on the present and future budgets of India, a deterioration in India's credit, an increase in the cost of borrowing, and a depletion of the resources available for desirable capital development".

In view of the heavy taxation since the War, the possibility of further increase in taxation was obviously limited, and the only remedy for introducing equilibrium in the finances, namely, that of retrenchment was adopted with the help of Lord Inchcape's Committee. This committee recommended a total reduction of about 19½ crores as under:—

	Proposed reduction. lakhs of Rs.
Pensions (including military non-effective charges).	... 7
Commercial Departments... ...	... 6,05
Charges for collection of revenue. ...	... 72
Civil Administration.	... 2,19
Military Services (effective). ...	... 10,47
	19,52

Out of this, the budget for 1923-24 accepted ar eduction of 12·3 crores (6·6 in civil expenditure and 5·7 in military

expenditure). The deficit in 1923 on the then existing scale of taxation would have been 5·8 crores; this was met partly by crediting to revenue the interest on the Paper Currency Reserve and the excess over 40 m. £. in the Gold Standard Reserve, and partly by doubling the Salt Duty. It was in this way that after a series of heavy deficits, the budget for 1923 provided for a small surplus. The revised estimates for 1923-24 show a small deficit of 38 lakhs, which is however concealed by the credit to revenue of 244 lakhs out of a windfall accruing from the control of enemy ships and similar items. The budget for 1924-25 as finally passed restores the Salt Duty to Rs. 1-4, and provides for a small surplus of 18 lakhs. The interest on the Paper Currency Reserve as well as the excess over 40 m. £. in the Gold Standard Reserve are still credited to revenue.

It was explained in connection with the last budget, that though all the specific recommendations of the Retrenchment Committee were not carried out, the total reduction suggested by them had been made. We must, however, point out in this connection that this does not mean that there are no further possibilities of retrenchment. It was indeed possible for the Inchcape Committee to suggest greater avenues of retrenchment than they did, and it is interesting to consider the causes which led them to suggest only 19½ crores of retrenchment and not more. A careful perusal of the report itself suggests a few causes. Businessmen as they were, the members of the committee were more practical than ideal. In dealing with the expenditure of all the important departments, the committee seem to have followed this procedure. They arrived at a certain figure for retrenchment on certain grounds; they discussed their conclusions with the head of the department concerned as to how far he agreed with their proposals; if the officer in question agreed with the proposed cut, the committee was sure of its position; if he did not, the committee modified its original proposal, and tried to come

down to the limit which was acceptable to the officer, of course after all the persuasion they could bring to bear upon him in the matter.

One instance only will suffice to prove this point. In connection with Military Services, the committee recommend that the estimates be reduced to 57 crores in future years. They further observe that these reductions have been agreed to generally by the Commander-in-Chief. But though the committee have succeeded in making the Commander-in-Chief agree to this limit, they themselves really desire a bigger cut and want to reduce the Military Budget to 50 crores, which will still be more in their opinion than the Indian taxpayer should be called upon to pay, and therefore, a still further reduction is looked forward to in case conditions are more favourable. It is expressly stated that the Commander-in-Chief does not agree with these latter suggestions.

This effort to arrive at a figure which was acceptable to the various spending departments of the Government is at once a source of credit and weakness. The Government claim to have carried out the recommendations of the committee; but the fact that the committee made only such recommendations as the Government were in a mood to carry out is not properly appreciated. In this effort to make their proposals acceptable to the authorities, the committee did not fully bear in mind the only point of view from which all financial questions ought to be considered, the point of view of the poor taxpayer of the country. To the extent to which the committee overlooked this point of view in their zeal to be practical, they became in spite of themselves, a party to the spending propensities of the various departments of the Government of India. As can be seen from almost every page of the committee's report, there was no limit to the reckless and extravagant expenditure incurred by

the Government of India in recent years. Those who in spite of increased taxation amounting to 49 crores of rupees since the War, were responsible for a series of unparalleled deficits aggregating to more than 100 crores have certainly not become prudent in a moment. They are habituated more to spend than to retrench. It may be true as the committee observe in their concluding paragraphs that the various officers who appeared before them evinced "the keenest disposition to help in the reduction of expenditure". But the country requires something much more than this disposition; we need a radical change in their equally keen disposition to spend; we need a firm determination on their part to restore order in the country's finances by retrenchment and retrenchment alone.

We are confirmed in the general complaint made above by events which took place even when the Retrenchment Committee was still at work in the winter of 1922-23. The appointment of the Public Services Commission was then announced, and it was appointed against the vote of the Assembly. That Commission has made recommendations involving an additional expenditure of 1¼ crores of rupees a year for the benefit of the superior services, which consist mostly of Englishmen, at a time when the country has hardly recovered from its financial difficulties.

In addition to the deficits on revenue account, mention must be made of the Special War Contribution of 100 m.£. in 1917, which was made by means of loans, and which has therefore added considerably to the annual interest on ordinary debt, and to the sinking fund charges.

Besides their own heavy disbursements either from revenue or from borrowed funds as explained above, the Government of India were required to provide funds for a large amount of expenditure on behalf of His Majesty's Government. India was the base of operations for the Eastern fields of war, Mesopotamia, Persia and East Africa,

and the Government of India were required to provide funds for the payment of troops, for the purchase of supplies, for other expenditure incidental to a modern campaign, and also for civil expenditure in occupied territory. Up to the end of 1919, the Government of India spent nearly 240 m.£. in this way. Arrangements were also made for financing the purchases of certain Dominions and Colonies in India, and for providing rupee credits for American purchasers of Indian produce. Of course, all this expenditure was repaid in course of time,[1] but the difficulties of finding these enormous amounts were obviously great, and the resources of India were strained to the utmost. The great effects of these transactions on the currency and exchange mechanism of India need not be discussed here.

TAXABLE CAPACITY.

In his well known book, Wealth and Taxable Capacity, Sir Josiah Stamp, begins his chapter on the Limits of Taxable Capacity by these observations :—" It will readily be realised that the three previous subjects with which we have dealt, viz., the amount of the National Capital, the National Income, and the way in which they are distributed, are essential preliminaries to any consideration of taxable capacity. Apart altogether from the question of figures and amounts, there has been no public exploration of the figures involved in measuring such capacity, or at any rate, it has been so spasmodic and fragmentary as to be of little value ".

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1. War transactions, net receipts in England by the India Office :—

	m.£.		m.£.
1914	8·7	1918	82·9
1915	14·2	1919	58·2
1916	33·2	1920	52·1
1917	62 0		

A public exploration of this kind was demanded in our country in February 1924, when a resolution was moved in the Council of State for the appointment of an expert committee to inquire into the economic condition of the people of India, to calculate the annual income of the country, and to suggest means to remove the destitution and poverty of the large masses of the people. In place of this larger inquiry, the Government agreed to appoint a Taxation Committee whose object "is to provide in the first instance the Finance Member, and in the second the Government of India, and in the third instance the people of India with something authoritative in the subject of taxation in India". The desirability of making the larger inquiry has not been denied, but it is considered to be a long, difficult and to some extent a theoretical inquiry, which is not likely to lead to practical results in a short time with a view to improve the taxation system of India. It is believed that the material collected by the Taxation Committee will prepare the way for a larger inquiry in due course.

This is not the first time that the necessity for such an inquiry into the poverty of the people has been urged upon Government. As early as 1870, Dadabhai Naoroji brought this question into prominence by publishing his own results, and since then the Government themselves have made some inquiries, which however have been treated as confidential. A brief account of these inquiries will be of interest.

Dadabhai Naoroji's Estimate[1]:—He proceeded by calculating the annual produce of each province. He took first the irrigated and unirrigated land under cultivation; estimated the produce in each case; and arrived at the total produce. Taking the current prices of the chief articles, he found the total value of this produce in money. He then

1. Cf. Dadabhai Naoroji, Poverty and Un-British Rule in India, pp. 1-25.

estimated the value of the non-agricultural income of India from different sources. He allowed for all possible errors in estimating and showed that he did not in any case underestimate the annual income of the country. He made use of the statistics for the year 1867, though in some cases he had to rely on the statistics of the years immediately following. His conclusion was that the average annual income per head was 40 sh. or Rs. 20 in India. In 1871, Mr. Grant Duff, under-Secretary of State for India gave a similar estimate in the House of Commons and said that the average income per head in British India was £ 2 per annum. Soon after this, Lord Mayo, then Viceroy, spoke in the Legislative Council with approval, referring to this estimate.

Sir David Barbour's Estimate:—The Famine Commission of 1880 made an estimate of the agricultural produce of India. Sir David Barbour worked on these figures in 1881. He found some errors, made the necessary changes and estimated the agricultural produce of each province. Following the Famine Commission, he valued this produce at the rate of Rs. 50 per ton for food-grains, and at the rate of Rs. 30 per acre for non-food crops. The results were as under:—

Province.	Population. in thousand	Food crop area * in thousand acres.	Non-food crop area in thousand acres.	Value in thousand Rs.
Punjab ...	18,794	18,900	2,500	34,73,00
N. W. P. und Oudh	44,107	31,450	5,200	72,21,00
Bengal ...	66,218	48,500	6,000	1,05,30,00
C. P. ...	9,831	13,000	2,500	21,25,00
Bombay ...	16,446	21,500	5,500	36,92,80
Madras ...	30,622	26,244	4,600	58,28,50
				3,28,70,30

Detailed figures for these six provinces only could be obtained. Allowing for a discrepancy in the estimates for

* The average yield in tons per acre in each province was taken to arrive at the value.

Bengal, the total value for the produce of these six provinces was taken to be 332 crores of rupees. The agricultural produce of Burma and Assam was valued at at Rs. 10 crores and Rs. 8 crores respectively, the total agricultural produce of British India being thus valued at Rs. 350 crores. This estimate did not take note of the expenses of cultivation. Sir David Barbour proceeded on the assumption that the error would not be great if the income from such products as milk, ghee, fuel, grass, live-stock, wool, various kinds of jungle produce etc., be held to balance the expenses on cultivation.

This income of Rs. 350 crores was the income of the agricultural classes including agricultural labourers, which meant nearly 66 per cent. of the population. Sir David Barbour assumed that the income of the country was divided between the two classes—agricultural and non-agricultural, in proportion to their numbers, and therefore the income of the non-agricultural classes was taken to be half of 350 crores, or 175 crores. The total income of British India was thus valued at Rs. 525 crores. Dividing this by the population which was 194,539,000, he got the average annual income of Rs. 27 per head of population.

Recent Estimates:—In March 1901, Lord Curzon announced in the Legislative Council that he had caused an estimate of the Income of India to be make on the same plan as that of Sir David Barbour and that it was Rs. 30 per head. On 23rd February 1921, the Hon. Mr. Cook announced in the Council of State that further calculations were made on the same lines as were followed in 1881 and in 1901, according to which the average annual income per head was Rs. 50 in 1911. Similar calculations have been recently made in the Department of Economics, University of Bombay, by which the income per head of population in 1921 is estimated to be Rs. 74.[1]

1. See "Wealth and Taxable Capacity in India" by Prof. K. T. Shah and Mr. K. J. Khambata M. A. to be published shortly. The following note bearing on this work has been supplied to me by Mr. Khambata:—

The calculation of the gross income-wealth of India (including Burma and the Native States) is made on the basis of production.

Standard of Living :—In addition to such calculations, statements about the general impoverishment of the large masses of the people and their very low standard of living are also frequently made[1]. For example, Sir William Hunter, whose knowledge and experience of Indian affairs cannot be doubted, studied this problem and came to the following conclusion in 1880[2] :—"The extent of the evil may be thus stated. Two-fifths of the people of British India enjoy a prosperity unknown under native rule; other two-fifths earn a

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The yield of each item of our agricultural wealth—foodgrains. oilseeds, fodder crops, and commercial crops—is estimated from statistics bearing on production; and is then evaluated by the help of Prices and Wages and other statistics bearing on prices. A similar proces is gone through with regard to each item of our forest and mineral wealth, and of our manufactures, including handicrafts and cottage industries. The whole is then summed up allowing for "double counting" wherever needed. Calculations are made for the year 1921-22, and for the following three periods :—(1) Pre-war period (average), 1900-1914; (2) War and post-war period (average), 1914-1922; (3) Whole period (average), 1900-1922. The results are :—

		Gross Income-Wealth. Crores of Rs.	Population Millions.	Income per head. Rs.
1900-1914	(average)	1106	301	36
1914-1922	(average)	1862	318	58-8
1910-1922	(average)	1380	310	44-8
1921-1922		2364	319	74

See also "Wealth of India: a study in the Problems of Population and Production" by Professors P. A. Wadia and G. N. Joshi, in which they arrive at the figure, Rs. 44-5-6 as the per head annual income in British India in 1913-14. This figure is arrived at by the calculation of the national dividend of British India on the basis of production.

1. Cf. Dadabhai Naoroji—Poverty and Un-British Rule in India; Hunter—India of the Queen and other Essays; Digby—Prosperous British India; Dutt—Economic History of India, 2 vols., and Famines in India; Ranade—Essays in Indian Economics; Gokhale—Speeches and Writings; Lajpat Rai—England's Debt to India etc.

2. India of the Queen and other Essays, p. 151.

fair but diminishing subsistence; but the remaining fifth, or forty millions, go through life on insufficient food".

It was in reply to this and similar observations that an inquiry was made by the Government of India in 1887-88 into the condition of the lower classes in India. The Bombay reports in answer to this inquiry gave estimates for each district of the Bombay Presidency of the annual charge for living up to a certain standard. This standard was based on a close inquiry of the ordinary requirements of an average member of the lower classes. The items included in this calculation were food, stimulants (including opium and tobacco), and dress. The cost of dwelling or other expenditure was not taken into consideration. For each district the minimum and maximum charge for living was estimated. These estimates which are summarised in the footnote[1] show that the average income of the people, as given above, was much below the minimum standard.

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1. **Annual charge for living for an adult male.**

District.	Minimum.			Maximum.		
	Rs.	as.	ps.	Rs.	as.	ps.
Ahmedabad ...	35	15	0	46	3	0
Kaira	49	8	3	58	0	0
Broach	37	0	0	45	8	0
Surat	51	14	0	69	7	9
Panch Mahals W. ...	32	9	10	41	12	6
Panch Mahals E. ...	46	8	8	52	10	0
Khandesh	45	3	6	52	3	6
Nasik	35	0	0	62	0	0
Ahmednagar ...	40	0	0	44	3	6
Poona	26	11	3	42	0	0
Satara	48	10	0	74	3	0
Sholapur	30	11	5	79	5	0
Belgaum	39	14	0	54	0	5
Dharwar	18	14	0	30	2	0
Bijapur	34	12	3	40	11	6
Thana	43	6	6	73	11	0
Kolaba	31	14	0	91	12	9
Ratnagiri	31	12	0	67	11	9
Kanara	40	13	0	56	4	0
Karachi	43	9	0	43	9	0
Hyderabad	35	0	0	64	0	0
Shikarpur	27	3	0	30	6	0
Thar & Parkar ...	50	0	0	57	8	0
Upper Sind Frontier...	40	7	7	43	5	1

More recently, Mr. Moreland has expressed the same truth in these words[1]:—

"It is a matter of common knowledge that the standard of life in India is undesirably low; that while the masses of the people are provided with the necessities of a bare subsistence they are in far too many cases badly housed and badly clothed, badly doctored and badly taught, often overworked and often underfed; and that the present income of the country, even if it were equitably distributed, would not suffice to provide the population with even the most indispensable elements of a reasonable life."

Limits of Taxable Capacity.

In the absence of any public exploration of the figures involved in measuring taxable capacity, we have to be satisfied with the existing material, a brief account of which has been given above. From this, the conclusion is obvious that the "heap" of national production to which the people contribute, and from which they draw their subsistence is small. The difference between the total quantity of production, and the total quantity of consumption is the measure of the taxable capacity of a country, which is therefore, necessarily small in India. In order to increase this capacity, the total quantity of production should be increased or that of consumption should be decreased, that is, the standard of living should be lowered. We have already seen that the standard of living in this country is already low, and needs to be raised. The obvious remedy therefore, to increase the taxable capacity, is to take early steps to increase the total quantity of production.

This limit of taxable capacity is however not an absolute or fixed figure; it may change under certain circumstances. Sir Josiah Stamp lays down the following reasons in this connection[1]:—

(1) It depends upon what the taxation is to be used for.

(2) It depends upon the spirit and national psychology of the people taxed, which may be influenced by patriotism or sentiment.

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1. Quarterly Review, April, 1917.

1. Wealth and Taxable Capacity, p. 118.

(3) It depends partly on the way the taxation is raised, both as to the methods adopted and the rate at which the increase is laid on.

(4) It depends on the distribution of wealth.

(5) Its rate of increase is greater than the rate of increase in wealth, and it shrinks more rapidly than the wealth diminishes.

The Application of Revenue.

Let us consider the first of these propositions, and study the way in which the Government uses the money that it raises by way of taxation. The money that Government raises by means of taxation is redistributed among the people by way of expenditure on the various services which Government undertakes. It is obvious therefore that if the nature of Government expenditure is such as to benefit the people by increasing their productive capacity and economic resources, the people in turn will be enabled to pay more by way of taxation.[1] If, however, the nature of Government expenditure is not conducive to the economic development of the people, their capacity to bear the burden of taxation will be progressively diminished.

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1. Cf. the following passage from Sir Basil Blackett's speech to the Indian Merchants' Chamber on 7th July 1924 :—

"One of the difficulties always is that the taxable capacity of the people depends almost entirely on the nature of the expenditure of the Government, or in other words very largely on the form in which Government uses the money that it raises by taxation. I am perfectly willing to admit that this is one of the difficulties of our situation. An unduly large proportion of the revenue is spent on the defence of the Frontier. I do not want to embark on controversial ground. If you spend the whole of the money that you raise, shall we say, on encouraging co-operative banking and on education, the taxable capacity of the people would be very different from what it is. It is a question of expenditure very much more than a question of taxation. I do not say for a moment that it is possible to reduce military expenditure. I wish I could say so. I have spent a lot of time trying to do it. But, as I said, it is a question of what you spend your money on and not a question of the amount that you raise that is important. I hope we shall get military expenditure down to 57 crores, or even to 50 crores, the figure of Sir Purshotamdas' history, but it cannot be done all at once and it is a very difficult thing to do."

Besides from this point of view of taxable capacity, that portion of Government expenditure which is spent outside the country has disastrous consequences. The economic effects of taxes spent in the country where they are raised and of taxes spent in one country and raised in another are totally different. In the former case they return to the industrious classes through the expenditure of Government. There is no loss of national income, which is only redistributed in the country itself. It is therefore that in highly organised countries, a large revenue can be realised without much pressure on the community. But in the other case, the national income is reduced by the amount that is spent outside the taxed country, except that portion of it for which a commercial equivalent is received. To this extent, the productive power of the country suffers a loss. The loss would be further aggravated if the country is industrially backward, for the net income of such a country must necessarily be small.

English Charges :—Let us analyse the main divisions of our expenditure from this point of view. At the very outset, we are faced with the most outstanding feature of Indian expenditure, namely, the large and increasing amount of sterling expenditure incurred out of India[1]. Apart from the merits of these charges, which have been discussed elsewhere, their economic effects are certainly disastrous from the point ot view of the Indian taxpayer, as they tend to reduce his taxable capacity.[2]

1.

Period	Total average net expenditure lakhs of Rs.	Average English charges m. £.	Exchange loss lakhs of Rs.	Total of Eng. charges in lakhs of Rs.	Percentage of Eng. charges on total expenditure.
1	37,29	10·47		10,47	28
2	48,70	14·91	5·92	20,83	42·7
3	113,10	18·9		28,35	25
4	169,60	23·9		35,85	21.1

2. Cf. "The drawings of the Home Government represent an export from India for a great portion of which no commercial equivalent is received and which subsequently diminishes the purchasing power of the country." Gold and Silver Commision Report, p. 5.

The Secretary State sells what are known as Council Bills in order to receive these payments. This process is convenient both to the Secretary of State and to the foreign trade of India. It is said that it is possible to carry out this process because India has an excess of exports over imports. The truth, however, is that India has an excess of exports, because she has to send such large remittances to England every year, which are made by the machinery of Council Bills. The recent system of purchasing sterling in India has in reality the same effect.

Whatever be the situation in India, even if there was a famine throwing millions on the verge of starvation, sufficient exports (and Indian exports are mostly raw products, including foodstuffs) must first be sent to meet these English Charges. For these "compulsory exports" India receives no commercial equivalent. If ever it was found difficult to receive these "English Charges" by means of excess of exports, a loan would be incurred in England to meet them, which would therefore increase these very payments in subsequent years. Among the chief causes of the economic backwardness of India this drain must figure at the head.

We have referred to the total sterling expenditure. In the accounts, however, the sterling expenditure on each item is separately shown. In the following discussion of Indian expenditure, therefore, we should bear in mind that a portion of the expenditure is incurred in sterling out of the country. For the details on this point the reader is referred to the different chapters on Expenditure and to the tables in the appendix.

Defence:—We see from the expenditure graph given at the end of this volume, that the movements of the line showing total expenditure are parallel to and dominated by those of the line showing the expenditure on Defence. The expenditure on Defence, which was somewhat less than half the total expenditure (both Imperial and

Provincial) in the first two periods, was substatially more than half the total expenditure in the third and fourth periods. The percentage of expenditure on Defence to the total average expenditure in the different periods was as under[1] :—

First period	46·8
Second period	44·5
Third period	54·1
Fourth period	58 4

When nearly half or more than half the resources of the state are thus spent away-on the Military, the share of the remaining services is necessarily small. The possibilities for an effective increase in beneficial expenditure for the amelioration of one-fifth of the human race that inhabit this country, are obviously unlimited. The reason why various important nation-building departments, like Education and Sanitation, Agriculture and Industry, are practically starved is to be found in this outstanding fact in Indian Finance—the enormous expenditure on Defence. Besides, the whole of the non-military expenditure is not available for directly beneficial purposes. The chief item in this connection is *Interest on Ordinary Debt.* The percentage which this item bore to the total expenditure in the different periods was as under :—

First period[2]	14·9
Second period	7·7
Third period	1 6
Fourth period	4 6

In order to arrive at the resources available to the state, for the moral and material progress of the people, we have to deduct the expenditure on Defence and Interest

1. For 1924-25, the Military Budget is 63 crores out of a total Central expenditure of 130 crores, which means nearly 49 per cent.

2. The productive debt was not separated from the ordinary debt in the first period.

on Ordinary Debt from the total resources.[1] We find that these two items together account for more than 60 per cent. of the total expenditure in the first and fourth periods, 52 in the second and nearly 56 in the third. It is evident, therefore, that the share of the expenditure for the moral and material development of the people is substantially less than half of the total.

Civil Expenditure:—The Civil Expenditure in the different periods, and its percentage on total expenditure was as under :—

Period	Average civil expenditure lakhs of Rs.	Percentage of same on total expenditure
1	10,28	29·5
2	15,04	31·2
3	24,18	34·4
4	34,38	37·7

The various items which go to make up the total civil expenditure are given below,[2] and the nature of the

1. Cf. Sir Josiah Stamp. Ibid, p 112 :—"Next, let us take expenditure on a foreign debt, or, say, military expenditure. The latter keeps men away from helping to increase production and the size of the " heap ". They would otherwise have put on the heap as much as they drew off. Now they put nothing on, and the sum abstracted is something which either reduces general consumption, enjoyment and possible efficiency, or else it reduces the saving power for the future, in its net effect."

We assume in the above calculation that the Interest on Ordinary Debt is wholly paid out of India, which is however not the case. Figures for an exact calculation of this kind are not available but we have shown in a former chapter that the greater portion of our Public Debt is in sterling which is held abroad and about half of the rupee debt is also held by people other than Indians.

2. 1. General Administration
2. Audit.
3. Law and Justice
4. Police.
5. Ports and Pilotage
6. Ecclesiastical
7. Political
8. Scientific Departments
9. Education.
10. Medical.
11. Public health
12. Agriculture
13 Industries.
14. Civil Aviation.
15. Miscellaneous Departments.
16. Territorial & Political business.
17. Suprannuation Allowances.
18. Stationery and Printing.
19. Miscelleneons.
20. Exchange.
21. Civil Furlough and absentee Allowances.

expenditure on them has been explained in detail in a former chapter. It is obvious that the whole of this expenditure does not go to improve the material condition of the people of the soil. A large portion is swallowed up by the costly foreign agency both for its effective and non-effective charges and the amount really spent for the benefit of the people is therefore small. For example, the expenditure on Education has a subordinate place; the expenditure for this most essential object being less than one anna per head of population till the beginning of this century[1]. In spite of the increase in expenditure under this head in recent years compared with former years, it must be said that it is not adequate for the requirements of the country, and is much less compared with the expenditure of the Government on other less important objects. The same remarks are generally true of other nation-building departments like Sanitation, Agriculture or Industry, the meagre expenditure on which has been already referred to in a former chapter.

Capital Expenditure :—The construction of public works in India has resulted in many benefits. Irrigation works and railways have increased fertility and commerce, and diminished the horrors of famine. But we have seen in the chapter on Commercial Services that these benefits could have been purchased at a smaller price, or for the same price greater benefits could have been obtained. It must also be pointed out that the greater portion of the capital expenditure invested in these works has been raised abroad, the annual interest on which forms a part of English charges. Besides, in spite of the huge expenditure on such works, the industries connected with railways have not been developed in the country with the consequence that a great portion of this expenditure has to be spent abroad. The amount of captial expenditure incurred abroad in this way is not included in the figures of English charges given above, which are met from revenue.

1. See p. 165.

Such captial expenditure is sometimes met from revenue, chiefly from the Famine Grant. The other charge on revenue for public works is that due to Buildings and Roads. As an adjunct to Railways, better roads are desirable. For administrative purposes, in a large country like India, expenditure on Government buildings is necessary to a certain extent.• It is well known, however, that some of these buildings are constructed on a very elaborate and costly scale, and however good they may be from the architectural or a æsthetic point of view, they are certainly beyond the capacity of the Indian taxpayer.

In this connection the lavish expenditure[1] on the construction of New Delhi may be mentioned. As one views the gigantic scale on which the construction of New Delhi is going on at present, one wonders at its grandeur on the one hand, and at the entire absence of any consideration of the burden which it involves on the taxpayer on the other.

Conclusion :—We come to the conclusion that the greater portion of Government expenditure is incurred in a way which does not conduce to the economic development of the people, and therefore, the expenditure on nation-building departments which would increase the taxable capacity of the people is very small.

Incidence of Taxation.

We shall now consider the question of taxable capacity from another point of view, namely, the average burden of taxation per head of population compared with the average annual income per head. For this purpose, we shall take the years 1871, 1881, 1891, 1901, and 1911. After 1911, the pre-war year 1913 may be taken with advantage. From 1921 the accounts of the Central and Provincial Governments have been separated; and it is better for the purposes of comparison to take the last pre-reform year, 1920. To ascertain the incidence at present, we shall adopt a special method of estimation which will be explained in its proper place.

1. This is met from borrowed funds.

The first difficulty that we meet with is—what is Taxation, and what items of Government revenue can be classed as Taxation. Without going into nice distinctions about the different definitions of Taxation, we shall say that "that portion of the annual wealth of the country which is taken for the purposes of Government may be considered to be taxation."

In the Budget of the Government of India for 1920-21, we find the following heads of Revenue:—

1. Land Revenue.
2. Opium.
3. Salt.
4. Stamps.
5. Excise.
6. Provincial Rates.
7. Customs.
8. Income Tax.
9. Forest.
10. Registration.
11. Tributes.
12. Interest.
13. Posts and Telegraphs.
14. Mint.
15. Receipts by Civil Department.
16. Miscellaneous.
17. Railways : Net Receipts.
18. Irrigation.
19. Other Public Works.
20. Military Receipts.

Land Revenue:—According to the definition of Taxation that we have adopted, Land Revenue is without doubt an item of Taxation. This is not the place to enter into the controversy whether Land Revenue is a rent or a tax; it is sufficient to point out that whatever point of view be taken, the Government does take by way of Land Revenue a portion of the wealth of the country, which would otherwise be enjoyed by the community. *Provincial Rates* are cesses on Land, and the same remarks apply to them.

In making any calculation in which Land Revenue figures have to be taken, we must take account of the peculiar inconsistency due to the item "Portion of Land revenue due to Irrigation" which has been already explained. We shall include this item of "Land Revenue due to Irrigation" in Land Revenue proper in making our calculations. Of course, a corresponding deduction will be made from the Irrigation receipts.

Opium :—In consequence of the agreement with China, the Opium Revenue has gone down considerably in recent

years. In earlier years, however, the revenue from this source was second only to that from land. There is no doubt that some part of the revenue which Government derives by the Opium monopoly would go to the cultivators and merchants if the monopoly did not exist. If the monopoly be removed, it is true that in consequence of the force of competition the price of opium would fall. But the cultivation of the poppy is confined to a limited part of the country and the area of poppy cultivation cannot be increased to a very great extent. In fact, at one time, when the demand for Indian Opium was large, a large increase in the area had been made by the efforts of the Government, and the limits to a further great increase had been reached.[1] It may be said, therefore, that to the extent to which the profits of the cultivators and merchants can be increased in the absence of a Government monopoly, there is an element of taxation in the Opium Revenue. It is, however, difficult to estimate what portion of the Opium Revenue is Taxation according to this principle, and therefore we shall omit this revenue from our calculation of the Incidence of Taxation, which will, therefore, be underestimated to this extent.

With regard to the other principal items of revenue, viz., *Salt, Stamps, Excise, Customs, Income Tax* and *Registration,* there is no difficulty in classing them as products of Taxation. The Tributes are taken from the rulers of Indian States; they are not paid by the people in British India, and hence are not Taxation for our present purpose.

Forests:—In the case of the revenue from Forests, it can be asserted that some portion of the receipts is the result of Taxation. The Government has a monopoly of forest produce and is able to obtain a net profit (which amounts to more than 150 lakhs in recent years) after covering all expenses. The profit in the early years was

1. F. S. 1882, para 141.

however small and the Government will still have to go a long way in the improvement of Forests before they can rely on them as a permanent and important source of revenue. We shall be erring on the safe side, if we exclude Forest receipts from our calculation of the Incidence of Taxation.

Interest; Receipts by Civil Departments; *Miscellaneous; Other Public Works;* and *Military Receipts*:—The revenue under these heads consists merely of receipts in reduction of expenditure on the corresponding heads. The Government pays interest on loans that it incurs; it receives interest on the sums which it advances out of these loans to local bodies. The Government runs certain departments, for example, the Education Department. It charges fees to those who take advantage of this Department. These fees help in reducing the expenditure which Government incurs for this purpose, and which falls on the general taxpayer. It is in the fitness of things that those who derive immediate benefit from certain services rendered by Government, however important and beneficial in themselves, should contribute at least a share towards the expenses of those services. It may be open to argument whether a particular fee or charge thus levied by Government is higher or lower than it ought to be. But for our purposes, these items must be excluded from the calculation of the Incidence of Taxation.

There remain to be considered the following heads of revenue :—*Posts and Telegraphs, Mint, Railways—Net Receipts, and Irrigation.* These are known as the Commercial Undertakings of Government. They are necessarily run on business principles. The Government renders these services in consideration of special payments. The receipts from these departments cannot therefore be considered as taxation. If, however, Government takes advantage of its monopoly in the case of these undertakings, and realises a large profit from them after meeting all charges including interest on capital invested

in them, the excess receipts would certainly come under the category of Taxation.

It is well known, however, that till after the beginning of this century, the Government of India made little or no profit from these undertakings. On the contrary for a long time the Railways were a source of burden on the revenues of the Government. During recent years, however, Government has derived a large net profit from Railways, and this has come to be an important source of revenue in their present financial difficulties. It is certain that if this source did not exist, or had been diverted to its legitimate purposes, namely, Railway extension or the Reduction of Railway Debt, the Government would have been required to impose additional taxation to that extent. It is evident, therefore, that the net profits from Railways in recent years come under the category of Taxation. Though Railways form the only important item in this connection, it is evidently better for the sake of completeness to take into consideration the net profit or loss in other Commercial Undertakings also in our calculation.

The total tax-revenue thus arrived at less the amount of Refunds which the Government has to give, divided by the population in British India, will give us the Incidence of Taxation per head of population in the different years which we have chosen. On account of the change in the system of accounts since the introduction of the Reforms, it is difficult to ascertain the corresponding figures for recent years, unless we have recourse to the budgets of all the Provincial as well as the Central Governments.[1] We will not be far from the mark, however, if we adopt another mode of calculation.

It is easy to estimate the amount of additional taxation imposed since the Reforms in the Central and Provincial

1. Unfortunately, all the necessary volumes are not available in Bombay.

Governments. If we calculate the amount of this additional taxation per head of population, and add it to the incidence for 1920, we shall get the desired figure. In doing so we shall be omitting the natural increase in revenue during the interval, and the figure will therefore be underestimated to that extent, but it is submitted that it will be approximately correct within a few pies.

The following table summarises the Incidence of Taxation,[1] with reference to the average annual income per head of population in British India in different years, so far as it is available, and shows the burden of taxation on the people.

Incidence of Taxation in British India.

Year.	Taxation per head.			Average annual income per head.	Percentage of Taxation on average income.
	Rs.	As.	Ps.	Rs.	Rs.
1871	1	13	9	20	9
1881	2	2	3	27	8
1891	2	3	11	—	—
1901	2	10	2	30	8·8
1911	3	1	5	50	6
1913	3	6	2	—	—
1920	5	4	3	—	—
1922	6	7	7	—	—

Up to 1901, the percentage of taxation on average income varies from 8 to 9. In 1911 it is 6. There was, no doubt, a material reduction of taxation during the years 1901 to 1911; but it is evident that the average income per head for 1911 estimated by Government seems to be exaggerated compared with the earlier figures. In the twenty years from 1881 to 1901, the income per head increases by Rs. 3 only. In the ten years from 1901 to 1911, the income per head is estimated to have increased by Rs. 20. It is this large figure of Rs. 50 as the income per head in 1911 that reduces the percentage of taxation on

1. For details see the relevant table in the appendix.

average income in that year. In the absence of the detailed calculation on which Government has based this estimate, we are not in a position to say anything more than point out the obvious exaggeration.[1]

During the years 1913 to 1920, that is during the War period, (including the years of demobilisation etc.), we have an additional taxation of about Rs. 2 per head of population. In the first two years of the Reforms, we have a still further addition of more than a rupee of taxation per head of population. In 1923 the burden must have been still higher on account of the doubling of the Salt Duty, but as in the present year, this duty has been restored to its old level of Rs. 1-4, we may take the Incidence for 1924 to be the same as that in 1922. It is probable that on account of the natural increase in the existing sources of taxation during the last two years, when the final figures for 1924 are available, the Incidence may turn out to be somewhat higher than what we have taken above.

The present Incidence of Taxation is twice that of the pre-war year. If the real burden of taxation to-day is to be the same as it was in 1913, our average income per head must be about Rs. 100. We have already pointed out that recent estimates put the average income per head in 1921 at Rs. 74 only, which means that the burden of taxation is much heavier to-day than what it was before the War. The materials for a detailed and authoritative calculation of this kind are obviously in the hands of Government, and it would be a great help in tackling the different problems before us, if Government instituted such an inquiry.

We have not taken into consideration the important question whether the low average income per head in the earlier years, or whether the exaggerated income for 1911, was sufficient for the maintenance of life even on a low

1. *Cf.* also the recent estimates given above.

standard. Without going into the complexities of this difficult problem, however, we may say that the great increase in the burden of taxation in recent years is evident from the estimates given above, and that the margin of taxable capacity of the people has been reached.

THE OUTLOOK.

We have seen that the taxable capacity of the people is small, that their standard of living is low, that a greater portion of Government expenditure is incurred in a way which does not conduce to the economic development of the people, that therefore the expenditure on what are called nation-building departments is small, and that the incidence of taxation is heavy in proportion to the capacity of the people.

Under the Reforms, nation-building departments like Education, Sanitation, Agriculture and Industry are in the hands of the Provinces and in charge of Ministers. The possibility of fresh expenditure on these and similar other departments is unlimited, but on the one hand, the finances of the Provincial Governments are not in the best of condition, and on the other, these departments do not get their due share, as the greater portion of the Provincial expenditure is incurred for reserved fields of administration. In order to enable the Provinces to incur a larger amount of beneficial expenditure, on the one hand expenditure on other services should be curtailed, and on the other the resources of the Provinces should be increased, firstly, by abolishing the Provincial Contributions, and secondly, by introducing fresh Provincial taxation, if necessary. Fresh taxation in the Provinces will be necessary in view of the general opinion in favour of the policy of prohibition of liquor and drugs, which will deprive them of their Excise Revenue. It is likely that the increased efficiency of the people due to the disappearance of the drink habit will react favourably on other sources of revenue like Customs.

Taxation Committee.

These are some of the problems before the Indian Taxation Committee which is appointed :—

' (1) to examine the manner in which the burden of taxation is distributed at present between the different classes of the population, (2) to consider whether the whole scheme of taxation, central, provincial and local is equitable and in accordance with the economic principles, and if not in what respects it is defective, (3) to report on the suitability of alternative sources of taxation (4) to advise as to the machinery required for the imposition, assessment and collection of taxes old and new, (5) to prepare rough estimates of the financial effects of the proposals, (6) to include in the inquiry consideration of the land revenue only so far as is necessary for a comprehensive survey of the existing conditions ".

The exclusion of any direct problem connected with Land Revenue limits the scope of the inquiry unnecessarily. To exclude from the consideration of the Taxation Committee a tax which has occupied the premier place in the Indian Revenue System till recently, and which is even now the most important source on which the Provinces depend has no justification whatsoever. In fact, the machinery for the collection of Land Revenue brings the Government closely in touch with the large agricultural population of the country, and the various questions regarding the burden, equity, assessment and collection of Land Revenue ought to have been made the first concern of this Committee.

In the different chapters on Revenue, we have pointed out the defects in the existing system of taxation, and suggested remedies for improvement wherever necessary. We propose to summarise these suggestions here, and consider at the same time the possibility of imposing new taxes, either Central or Provincial.

Land Revenue[1] :—The inequalities in Land Revenue should be removed. The principle that Land Revenue

1. See pp. 349–350.

is a tax on agricultural incomes and not a rent ought to be accepted in practice. The state demand ought to be regulated by statute and not by executive discretion. This would remove the present uncertainty, and would provide safeguards for the taxpayer against the mistakes or oppression of executive authority. In normal times, the share of the state ought to be fixed at a moderate percentage of the produce, net or gross, as it may be thought convenient, which would leave enough margin to the landholder to save, and which would encourage him in introducing improvements on his land. In order to adjust the money value of his share with changing prices a periodical revision of the assessment would be necessary. It would naturally follow that those petty landholders who contribute a trifle to the state revenues and yet who suffer from that contribution ought to be exempted. The capacity of the landholder to pay ought to be the principal basis of all legislation in this matter; and in course of time the principle of progressive taxation may also be applied to those large landlords whose profits exceed a certain large limit. The rights of tenants ought to be protected by suitable legislation.

Taxes on Income :—The existing defects ought to be removed and the undue burden on the middle classes should be lessened by a system of differentiation, and by granting allowances and reliefs. In case of emergency, the rates of Income tax and Super tax on the highest incomes may be raised to some extent.

Customs :—Though this is now the largest source of revenue, it is still possible to increase the yield under this head, if necessary. The General Import Duty which is now at 15 per cent. may be raised to 20 per cent. The same duty should apply to cotton piece-goods which at present pay only 11 per cent. The Excise duty on cotton goods should be abolished; but if it is proved that the Indian Cotton Industry does not require special

protective measures of any kind when the import duty on cotton goods is 20 per cent., the Provincial Governments may be allowed to impose an Excise duty, which should not exceed, say, more than one tenth of the import duty; that is, the Excise duty in the present case would be 2 per cent. if the import duty was raised to 20 per cent. This will give a good source of revenue to the Provinces where the industry flourishes for their own local requirements.

The duty on luxury articles which now pay 30 per cent. may be raised to at least 40 per cent. without any serious difficulty. The duty on cigars and cigarettes which is 75 per cent. may be raised to 100 per cent., and similarly the duty on manufactured tobacco which is Rs. 2-4 a pound may be raised to Rs. 3 per pound. At the same time a license duty for the sale of indegenous tobacco may be levied, and this may be made a Provincial receipt.

Export duties as a rule are not desirable, but in the case of those articles for which we have a monopoly or something approaching a monopoly, it is possible to raise some revenue by levying an export duty, which in that case would be paid by the foreign buyer. The most important case in this connection is that of Jute. The substitutes for jute, namely, hemp and flax are one and a half times as costly as jute, and therefore are not likely to displace it from the foreign market so long as jute is cheaper compared with them. This means that the maximum duty which jute can bear is about 50 per cent. ad valorem, and if we impose a duty of about 25 per cent. to be on the safe side, our position in the foreign market will not be endangered. The present specific duties are much below this figure, and steps should therefore be taken to increase them to this extent.

Another case of monopoly production is that of Shellac for which there does not exist a suitable substitute. Their is a large foreign demand for this article, and it is

consequently capable of bearing an export duty. It is a forest produce, and it will not therefore be difficult for the Government to make the shellac trade a state monopoly, which will enable them to levy the export duty more effectively.

In the case of Hides and Skins, though we have not a monopoly, we supply a large quantity of the foreign demand. An export duty of 15 per cent. was imposed on Hides and Skins in 1919, but it was found necessary to reduce it to 5 per cent. recently. This does not mean that it is not possible to increase this duty in future. Our biggest buyer in the case of Hides and Skins was Germany where the tanning industry is most developed. In 1919, when the export duty was levied Germany was obviously not in a position to buy our goods to any large extent. It is not too much to suppose that soon after the advent of normal conditions in Europe in general, and in Germany in particular, the demand for our Hides and Skins will increase even with a higher export duty levied on them.

Salt Duty :—In view of the fact that salt is a primary necessity of life, this duty should be kept at as low a level as possible, and should not be increased in ordinary times. In very exceptional cases of emergency, a temporary increase in the duty may be justified.

Excise :—In view of the prevailing opinion in favour of a policy of prohibition of liquor and drugs this source of revenue is likely to dwindle in future years. It is possible however, that on account of the disappearance of the drink habit, the efficiency and resources of the drinking classes will increase and lead to some increase in other sources of revenue like Customs.

Stamps and Registration :—From what we have already said in connection with these sources of revenue, it is evident that a further increase in the Stamp duties

and Registration fees would press on the people unduly and is therefore not desirable.

Opium :—This source is already on the decline on account of causes explained elsewhere.

Forests :—With the development of forests this source is likely to yield a greater amount of revenue in future years.

Tributes :—There is obviously no possibility of an increase under this head.

Entertainments Tax :—This tax has been levied recently in some provinces. In the Bombay Presidency it applies to a few important cities. It is possible to increase the revenue under this head by extending the operation of the tax to other areas.

Succession Duty :—This is the principal tax recommended by the Bombay Excise Committee, 1923, to take the place of Excise Revenue in future years. In view of the fact that this duty will fall on persons most able to bear it, and that it is not likely to discourage thrift, this tax has much to recommend itself.[1] There will be difficulties in the introduction of such a tax, but in the words of the Bombay Excise Committee "it is not impossible for the Government with expert legal advice to devise a method of arranging the tax which will not lead to wholesale evasion nor to unjustifiable hardship on any particular community." This duty may be made a Provincial receipt.

Marriage duty :—In a country like India where marriage is almost universal, and where the expenditure on marriage ceremonies is usually large, a duty to be paid by

1. Cf. Stamp, Ibid p. 130 :—"By a judicious mixture of methods one can get a larger sum out of the community (with a given amount of "pain") than by following any one special line. The field of death duties offers possibilities at the present moment greater than additions to the already high direct taxation."

the parties celebrating the marriage would bring some revenue without any real hardship. This may be levied by a sort of registration fee, and it would not be difficult to collect it with the help of the same machinery which now registers births and deaths. A duty of one rupee on each party celebrating the marriage may be levied in the first instance, and it may be levied at a higher rate in the case of those who pay income tax or land revenue above a certain figure, according to a graduated scale. In order to prevent evasion, a penalty, say, of ten times the duty which the offender is liable to pay, should be provided by law. This may be made a Provincial receipt.

Conclusion.

Every effort should be made both by Government and by private organisations to increase the taxable capacity of the people. The development of agriculture and industry on national lines, the spread of education and better sanitary facilities should be placed in the forefront by the Imperial and Provincial Governments. Remedies should be devised and applied with determination and without delay to remove the poverty and destitution of the large masses of the people. For this purpose a comprehensive public inquiry into the economic condition of the people is an essential preliminary and is urgently needed.

The heavy military expenditure should be reduced at once, and brought at least to Rs. 50 crores as contemplated by the Inchcape Committee. Further reduction when prices go down should be kept in view. The heavy burden of English charges should also be reduced. With the help of the resources thus available, and by economies in other directions, the Central Government should give up its claim on the Provincial Contributions. If necessary, the Central Government should raise more revenue by those increases in Customs and other sources which have been suggested above.

The Provinces thus relieved will be in a position to spend more on nation-building departments. The increased resources of the Provinces should be earmarked for those purposes, which are specially calculated to develop the taxable capacity of the people, namely, Education, Sanitation, Agriculture, Industry, and the like. For this object, if necessary, the Provinces should raise more revenue by means of Succession Duty, Marriage Duty and other sources already suggested.

APPENDIX.

STATISTICAL TABLES.

Note.

The confusion in Indian Financial Statistics which makes it difficult to follow them for the purposes of a comparative study has been explained in Chapter IV. The contents of this Chapter were published in the form of an article in the Indian Journal of Economics in July 1924. Since then some improvement has been made in the plan explained in that article for the preparation of a series of tables giving the financial statistics of India in an intelligible form. This has been explained in the last two paragraphs of Chapter IV.

The figures are for financial years. For example the year 1924 in the tables means 1924–25, that is, 1st April 1924 to 31st March 1925. Up to 1867, the financial year began from 1st May; in that year it was changed to 1st April; the figures for 1866–67 are therefore for 11 months.

The figures up to 1920 are for all India, that is, of the Central and Provincial Governments together. The accounts have been separated since 1921, and the figures from 1921 are those for the Central Government only, and hence are not comparable with those preceding, in all cases. The figures for 1923 are those of the Revised Estimates; for 1924 of the Budget Estimates.

TABLE.

Showing the distribution of Revenue and Provincial Governments

HEADS OF REVENUE.	Lakhs of Rupees. Imperial.	Provincial.	Total.
PRINCIPAL HEADS OF REVENUE.			
Land Revenue	15,52	16,46	31.97
Opium	3,53	......	3,53
Salt	6,76	......	6,76
Stamps	5,60	5,36	10,96
Excise	5,70	14,74	20,44
Provincial Rates	......	6	6
Customs	31,90	......	31,90
Income Tax	15,67	6,52	22,19
Forest	14	5,28	5,41
Registration	2	1,10	1,12
Tributes from Natives States ...	91	......	91
Total ...	85,75	49,51	135,26
Interest	2,98	59	3,58
Posts and Telegraphs	9,62	......	9,62
Mint	73	......	73
RECEIPTS BY CIVIL DEPARTMENTS.	4	69	73
Law and Justice { Courts ...	10	53	63
Law and Justice { Jails ...	13	24	37
Ports and Pilotage	......	25	25
Education	1	53	54
Medical	......	23	23
Sanitation	5	6	11
Agriculture	5	21	26
Scientific and Miscellaneous Depts. ...	5	38	44
Total ...	44	3,11	3,56
MISCELLANEOUS.			
Receipts in aid of Superannuation, etc.	18	17	36
Stationery and Printing	9	12	21
Exchange	......	......	......
Miscellaneous	2,43	9,35	11,78
Total ...	2,71	9,64	12,35
Railways—Total	25,02	......	25,02
IRRIGATION.			
Major Works: Direct Receipts ...	2,36	3,16	5,52
Portion of L. R. due to Irrigation ...	1,55	1,31	2,86
Minor Works and Navigation ...	16	26	42
Total ...	4,07	4,72	8,80
Civil Works	11	65	76
Military Receipts—Total... ...	6 48	......	6,48
Transfers between Imperial and Provincial Revenues	-2,29	+229	......
Total Revenue ...	135,63	70,52	206,16

I.

and Expenditure between Imperial in 1920–21. (ch. II p. 44).

HEADS OF EXPENDITURE.	Lakhs of Rupees. Imperial.	Provincial.	Total.
Direct demands on Revenue ...	7,65	14,62	22,27
Interest: Total ...	12,18	58	12,76
Posts and Telegraphs	9,44	—	9,44
Mint	25	—	25
SALARIES AND EXPENSES OF CIVIL DEPARTMENTS.			
General Amministration	2,80	2,03	4,83
Law and Justice... Courts ...	15	6,58	6,73
Law and Justice... Jails ...	42	2,08	2,50
Police	82	11,20	12,02
Ports and Pilotage	...	41	41
Education	27	7,48	7,75
Ecclesiastical	25	...	25
Medical	22	2,28	2,50
Sanitation	26	1,00	1,26
Political	3,09	37	3,46
Agriculture	22	1,47	1,69
Scientific and Miscellaneous Depts. ...	95	54	1,49
Total ...	9,45	35,45	44,90
MISCELLANEOUS CIVIL CHARGES.			
Territorial and Pol. Pensions ...	28	—	28
Civil Furlough etc.	1,05	—	1,05
Superannuation and Pensions ...	2,32	2,37	4,69
Stationery and Printing	88	1,22	2,10
Exchange	3,23	—	3,23
Miscellaneous...	84	56	1,40
Total ...	8,60	4,15	12,75
Famine Relief and Insurance ...	1,43	7	1,50
Railways: Total ...	19,37	...	19,37
Irrigation: Total ...	3,07	3,95	7,02
Railways charged to Prov. Revs. ...	...	20	20
Civil Works	1,96	10,62	12,58
Military Services	88,23	...	88,23
Total Expenditure ...	161,64	69,63	231,28
Add—Portion of allotments to Prov. Govts. not spent by them in the year	...	7,66	...
Deduct—Portion of Prov. expenses defrayed from Prov. balances ...	...	6,77	...
Total Exp. charged to Rev. ...	161,64	70,52	232,17

TABLE 2.

Summary table regarding expenditure on Defence. (Ch. VI).

Period or year.	Unit.	Net Mil. Exp.	Net Marine.	Net Mil. Works.	Net Total.	Net Total in Crs. Rs.
1 ...	M. £ (£=10 Rs.)	14·8	·43	1·07	16·3	16·8
2 ...	M. Rx. (Rx.= 10 Rs.)	19·8	·42	1·20	21·4	21·4
3 ...	M. £ (£=15 Rs.)	17·3	·40	·90	18·6	27·9
4 ...	Crs. Rs.	49·9	·7	3·2	53·8	53·8
1921 ...	Crs. Rs.	63·7	1·1	5·1	...	69 9
1922 ...	"	58·5	1·0	4·4	...	65·3
1923 ...	"	57·8	·9	4·2	...	59·7
1924 ...	"	55·5	·8	4·0	...	60·3

TABLE 3.

Showing the annual cost of British and Indian Soldiers in rupees. (Ch. VI, pp. 111-112).

	1913	1922	1913	1922	
British Officer.					*Indian Officer.*
British Cavalry ...	8,312	11,294	...	...	......
" Infantry ...	6,393	10,277	...	...	......
Indian Cavalry ...	9,332	14,277	1,439	2,524	Indian Cavalry.
" Infantry ...	8,691	13,992	1,197	2,124	" Infantry.
British N. C. O.					
British Cavalry ...	1,512	3,529	...	...	......
" Infantry ...	1,386	3,307	...	...	......
British Soldier.					*Indian Soldier.*
British Cavalry ...	1,036	2,526	318	669	Savar.
" Infantry ...	965	2,503	283	631	Sepoy.

TABLE 4.

Showing total expenditure on Defence in crores of Rs. (Ch. VI).

Year.		India. Effective.	India. Non-effective.	England. Effective.	England. Non-effective.	Gross Total.	Net Total.	Military Works.	Marine.	Grand Total.
1861	...	...	12·7	2·5		...	15·2	·5	·5	16·2
1862	...	...	11·9	2·1		...	14·0	·5	·5	15·0
1863	...	...	11·9	1·8		...	13·7	·7	·2	14·6
1864	...	...	12·7	2·2		...	15·0	·8	·3	16·1
1865	...	...	13·6	2·4		...	16·0	1·0	·3	17·3
1866	...	...	11·7	3·3		...	15·0	1·5	·4	16 9
1867	...	...	11·8	3·4		...	15·3	1·7	·5	17·5
1868	...	...	11·8	3·2		...	15·1	2·1	·4	17·6
1869	...	...	11·7	3·4		..	15·2	1·4	·9	17·5
1870	...	...	11 6	3·5		...	15·1	·9	·3	16·3
1871	...	...	11·1	3·5		...	14·7	·9	·3	15 9
1872	...	...	11·0	3·5		...	14·5	·8	·3	15·6
1873	...	...	10 8	3 3		...	14·2	·7	·2	15·1
1874	...	...	10·7	3·5		...	14·3	·8	·2	15·3
Average	...	...	*11·8*	*3·0*		...	*14 8*	*1·0*	*·4*	*16·2*
1875	...	11·0	·6	2·1	1·4	15·7	14·6	1·3	·4	17·6
1876	...	11·2	·6	2·2	1·6	16·4	15·5	1·2	·4	18·3
1877	...	11·7	·6	2·3	1·9	17·3	16 4	1·1	·3	18·9
1878	...	12·4	·6	2·0	1·9	17·9	16 9	1·2	·3	19·6
1879	...	16·7	·6	2·1	2·1	22·5	21 4	·9	·3	23·9
1880	...	23·2	·7	2·1	2·0	28·9	24 1	·9	·3	30·3
1881	...	14·1	·7	1·7	2·2	19·6	15·3	1·0	·4	21·3

Year.	India. Effective.	India. Non-effective.	England. Effective.	England. Non-effective.	Gross Total.	Net Total.	Military Works.	Marine.	Grand Total.
1882	12·6	·8	1·7	2·2	18·3	16·6	·9	·3	19·7
1883	11·1	·8	1·6	3·3	18·1	17·1	1·0	·4	19·7
1884	11·2	·8	1·6	2·3	16·9	16·1	·9	·3	18 3
1885	14·4	·8	1·9	1·6	20·0	19·1	1 1	·3	21·6
1886	13·7	·8	1·7	1·7	19·5	18·5	1·2	·6	21·6
1887	14·2	·8	1·8	1 8	20·4	19·3	1·6	·5	22·7
1888	13·9	·8	1·7	1·9	20·3	19·2	1·9	·4	22·7
1889	14·0	·9	1·9	2·0	20·6	19·7	1·8	·5	23·0
1890	13·8	·9	2·3	2·0	20·6	19·9	1·7	·3	22·8
1891	14·8	·9	2·4	2·1	22·2	21·5	1·8	·4	24·6
1892	14·6	·9	2·5	2·3	23·4	22·5	1·6	·7	25·8
1893	15·0	·9	2·1	2·2	23·2	22·4	1·5	·6	25·4
1894	15 3	·9	1·9	2·3	24·0	23·0	1·2	·5	25·8
1895	17·2	·8	1·8	2·3	25·3	24·0	1·3	·6	27·3
1896	16·3	9	1·8	2·3	24·2	23·3	1·2	·6	26·1
1897	19·4	·9	1·8	2·4	26·9	26·1	1·1	·5	28·8
1898	16·5	·9	1·9	2·4	24·0	23·0	1·2	·5	25·8
Average	*14·5*	*·8*	*1·9*	*2·1*	*21·1*	*19·8*	*1·3*	*·4*	*21·5*
1899	15·3	·9	2·4	3·6	22·2	21·2	1·2	·9	24·1
1900	15·0	·9	3·0	3·6	22·5	21·3	1·2	1·1	24·6
1901	16·2	·9	3·0	3·4	23·5	22·2	1·4	1·1	25·8
1902	17·1	·9	4·3	3·6	26·0	24·4	1·5	1·1	28·3
1903	18·3	·9	3·9	3·6	26·8	25·2	1·5	1·1	29·3
1904	20·1	1·0	5·4	3·6	30·1	22·8	1·5	1·7	32·7
1905	20·1	1·0	4·2	3·6	28·9	27·1	1·6	1·5	31·5

Year.		India. Effective.	India. Non-effective.	England. Effective.	England. Non-effective.	Gross Total.	Net Total.	Military Works.	Marine.	Grand Total.
1906	...	20·2	·9	4·6	3·6	29·3	27·2	1·6	1·4	31·8
1907	...	19·9	·9	3·3	3·7	27·8	26·0	1·6	·9	30·1
1908	...	20·4	1·0	3·6	3·6	28·6	27·1	1·4	·2	30·5
1909	...	20·2	1·0	3·3	3·7	28·4	26·8	1·1	·2	30·2
1910	...	20·4	1·0	3·4	3·7	28·5	27·0	1·2	·2	30·4
1911	...	20·8	1·0	3·6	3·7	29·1	27·5	1·2	·2	31·0
1912	...	20·5	1·0	3·9	3·7	29·2	27·4	1·3	·2	31·1
1913	...	20·8	1·0	3·9	3·7	29·4	27·6	1·3	·9	31·4
Average	...	*19·2*	*·95*	*3·7*	*3·6*	*27·3*	*25·4*	*1·4*	*·6*	*27·4*
1914	...	22·2	1·1	3·5	3·8	30·5	28·8	1·4	·3	32·5
1915	...	24·5	1·2	3·6	3·6	32·8	31·5	1·1	·7	35·0
1916	...	27·0	1·2	4·8	3·3	36·4	34·8	2·3	·4	39·8
1917	...	31·7	1·5	5·9	3·2	42·2	40·2	2·6	·8	46·0
1918	...	55·2	1·7	3·6	3·8	64·2	61·5	4·2	1·0	70·1
1919	...	71·3	1·8	3·5	3·0	79·7	76·4	5·7	1·2	87·2
1920	...	67·9	2·4	7·7	3·2	81·3	75·8	5·3	·6	88·2
Average	...	*42·8*	*1·5*	*4·6*	*3·4*	*52·1*	*49·9*	*3·2*	*·7*	*53·8*
1921	...	49·6	3·6	12·6	5·0	70·9	63·7	5·1	1·1	69·9
1922	...	44·3	4·2	11·0	5·2	64·7	58·5	4·4	1·0	65·3
1923	...	39·7	4·0	9·5	7·6	58·5	57·8	4·2	·9	59·7
1924	...	39·2	3·8	9·6	5·3	57·9	55·5	4·0	·8	60·3

TABLE 5.

Showing payments to the War Office in thousands of £.
(Ch. VI, pp. 114–123).

Year.			Effective.	Non-effective.	Total.
1861	...	...	584	204	788
1862	...	...	696	243	939
1863	...	...	687	241	928
1864	...	...	693	243	936
1865	...	...	651	228	879
1866	...	...	619	217	836
1867	...	...	568	199	767
1868	...	...	584	204	788
1869	...	...	597	209	806
1870	...	...	505	429	934
1871	...	...	435	281	716
1872	...	...	450	318	768
1873	...	...	400	348	748
1874	...	...	380	429	809
Average	...	...	......	......	*832*
1875	...	...	320	543	863
1876	...	...	400	766	1,166
1877	...	...	500	731	1,231
1878	...	...	530	856	1,386
1879	...	...	450	886	1,336
1880	...	...	465	918	1,383
1881	...	...	480	902	1,382
1882	...	...	519	700	1,219
1883	...	...	584	472	1,056
1884	...	...	522	36	558
1885	...	...	750	78	828
1886	...	...	628	122	750
1887	...	...	666	169	835
1888	...	...	720	218	938
1889	...	...	734	261	995
1890	...	...	747	298	1,045
1891	...	...	785	344	[illegible]9
1892	...	...	967	571	[illegible]

Year.		Effective.	Non-effective.	Total.
1893 ...	...	740	406	1,146
1894 ...	...	764	432	1,196
1895 ...	...	730	431	1,161
1896 ...	...	724	469	1,193
1897 ...	...	730	507	1,237
1898 ...	...	764	527	1,291
Average ...	...	......	......	*1,111*
1899 ...	...	739	557	1,296
1900 ...	...	700	553	1,253
1901 ...	...	64	554	618
1902 ...	...	852	615	1,467
1903 ...	...	627	660	1,287
1904 ...	...	644	729	1,373
1905 ...	...	566	715	1,281
1906 ...	...	654	773	1,427
1907 ...	...	631	816	1,447
1908 ...	...	901	822	1,723
1909 ...	...	916	859	1,775
1910 ...	...	935	880	1,815
1911 ...	...	914	898	1,812
1912 ...	...	941	919	1,860
1913 ...	...	917	927	1,844
Average ...	...	......	......	*1,485*
1914 ...	...	930	946	1,876
1915 ...	...	929	864	1,793
1916 ...	...	930	676	1,606
1917 ...	...	930	672	1,602
1918 ...	...	872	1,076	1,948
1919 ...	...	912	1,441	2,353
1920 ...	...	2,033	1,008	3,041
Average ...	...	......	......	*2,031*
1921 ...	...	2,068	1,055	3,123
1922 ...	...	1,702	1,068	2,770

TABLE 6.

Showing the details of Civil Expenditure in selected years, in lakhs of Rupees, (Ch. VII).

CIVIL DEPARTMENTS.	1861	1875	1885	1898	1913	1920	1924
General Administration ...	...	146	173	196	297	483	165
Audit	...	...	...	...	...	...	85
Justice, Gaols and Convict Settlements	360	251	277	343	510	780	12 40
Police	...	230	250	380	690	1,160	89
Ports and Pilotage	...	36	32	45	-23	16	25
Ecclesiastical	...	16	16	17	19	25	33
Political	24	43	115	90	173	346	322
Scientific Departments... ...	...	35	40	45	59	107	79
Education	34	87	104	137	439	711	32
Medical	...	63	69	153	188	227	29
Public Health	...	...	...	...	...	115	14
Agriculture	...	...	...	...	70	143	27
Industries	...	...	...	...	...	...	·8
Aviation	...	...	...	...	...	...	·2
Miscellaneous Departments ...	...	...	...	...	...	...	27
Total ...	...	904	1,081	1,400	2,475	4,140	980
MISCELLANEOUS CIVIL CHARGES.							
Famine Insurance	...	...	...	...	...	...	·14
Territorial & Political Pensions	...	81	65	42	31	28	30
Superannuation & Pensions ...	70	130	250	370	480	440	299
Stationery and Printing ...	...	42	45	63	95	189	51
Miscellaneous	...	18	-3	-33	37	-1,038	109
Exchange	...	5	-26	-4	-18	323	—
Furlough	...	25	26	39	68	105	—
Total ...	...	309	356	472	690	40	489
Grand Total ...	858	1,213	1,437	1,872	3,165	4,180	1,469

TABLE 7.

Showing the total Civil Expenditure, in two main subdivisions, Civil Departments and Miscellaneous Civil Charges in crores of Rs. (Ch. VII.)

Year.	Civil Departments.	Miscellaneous Civil Charges.	Gross Total.	Net Total.
1861	......	......	9·4	8·5
1862	......	......	9·4	8·6
1863	......	......	10·0	8·9
1864	......	......	10·8	9·8
1865	......	......	10·7	9·9
1866	......	......	10·8	10·1
1867	......	......	12·0	10·4
1868	......	......	13·1	11·1
1869	......	......	13·0	10·9
1870	......	......	12·8	11·0
1871	......	......	11·9	10·3
1872	......	......	12·8	11·3
1873	......	......	12·8	11·0
1874	......	......	13·1	11·4
Average	......	......	......	*10·3*
1875	10·3	4·3	14·6	12·0
1876	10·6	4·2	14·8	12·3
1877	10·4	4·1	14·5	12·0
1878	10·4	4·4	14·8	12·3
1879	10·4	4·3	14·7	12·4
1880	10·6	4·2	14·8	12·3
1881	11·1	4·5	15·6	13·2
1882	11·0	4·3	15·3	13·2
1883	11·3	4·3	15·6	13·4
1884	11·7	4·3	16·0	13·8
1885	12·2	4·6	16·8	14·3
1886	12·6	4·7	17·3	15·0
1887	12·9	4·7	17·6	14·5
1888	13·0	4·8	17·8	14·0
1889	13·2	4·8	18·9	15·1
1890	13·3	4·6	17·9	15·4
1891	13·8	5·0	18·8	16·2
1892	14·2	5·5	19·7	17·2
1893	14·6	5·6	20·2	17·6
1894	14·8	6·0	20·8	18·0
1895	15·1	5·9	21·0	18·2
1896	15·4	5·8	21·2	18·4

Year.		Civil Departments.	Miscellaneous Civil Charges.	Gross Total.	Net Total.
1897	...	15·7	5·7	21·4	18·7
1898	...	15·7	5·7	21·4	18·7
Average	...	......	......	......	*15·0*
1899	...	16·1	6·1	22·2	19·6
1900	...	16·4	5·9	22·3	19·7
1901	...	16·7	6·2	22·9	20·1
1902	...	17·5	6·7	24·2	21·3
1903	...	17·9	6·5	25·4	21·0
1904	...	18·6	6·3	24·9	21·4
1905	...	19·8	6·4	26·2	22·7
1906	...	18·9	6·7	25·6	23·8
1907	...	19·6	7·1	26·7	25·0
1908	...	21·7	7·3	22·0	27·4
1909	...	21·2	7·2	28·4	25·6
1910	...	22·3	7·2	29·5	26·7
1911	...	24·6	7·3	31·9	28·8
1912	...	25·0	7·3	32·3	30·3
1913	...	26·8	8·1	26·9	31·6
Average	...	......	......	......	*24·3*
1914	...	28·3	7·9	36·2	33·0
1915	...	28·3	7·7	36·0	32·6
1916	...	28·6	6·1	36·7	30·8
1917	...	31·3	8·9	40·2	30·8
1918	...	35·5	9·4	44·9	31·7
1919	...	38·3	8·3	47·6	40·5
1920	...	44·9	12·7	57·6	41·8
Average	...	......	......	......	*34·4*
1921	...	9·4	5·6	15·0	7·0(*a*)
1922	...	9·9	5·2	15·1	14·1
1923	...	9·6	4·8	14·4	10·6(*a*)
1924	...	9·8	4·9	14·7	13·4

(*a*) This low figure is due to the credit of several large receipts under the Miscellaneous group.

TABLE 8.

Showing details of Expenditure on certain principal civil heads in crores of Rupees (chapter VII.)

Year.	Law and Justice.		Police.		Education.		Political.	Superannuation allowances and Pensions.	
	Gross.	Net.	Gross.	Net.	Gross.	Net.		Gross.	Net.
1861 ...	1·4	1·2	...	...	...	...	·36	...	...
1862 ...	1·5	1·2	...	...	...	...	·42	...	...
1863 ...	1·6	1·3	...	...	...	...	·35	...	...
1864 ...	1·7	1·3	...	...	...	...	·43	...	...
1865 ...	1·8	1·3	...	...	...	...	·38	...	...
1866 ...	1·7	1·3	...	...	...	...	·40	...	...
1867 ...	1·9	1·4	...	...	...	...	·43	...	...
1868 ...	2·1	1·4	...	...	...	...	·52	...	...
1869 ...	2·1	1·6	...	...	...	...	·62	...	...
1870 ...	2·3	1·8	...	...	...	...	·53	...	...
1871 ...	2·2	1·8	...	...	...	...	·47	...	...
1872 ...	2·2	1·8	...	...	...	...	·58	...	...
1873 ...	2·2	1·9	...	...	...	...	·54	...	...
1874 ...	2·2	1·9	...	...	...	...	·60	...	...
Average ...	*1·9*	*1·5*	...	...	...	...	*·47*	...	...
1875 ...	3·1	2·5	2·5	2·3	1·0	·8	·43	2·1	1·3
1876 ...	3·1	2·5	2·5	2·3	1·0	·8	·51	2·1	1·5
1877 ...	3·2	2·5	2·5	2·3	1·0	·8	·41	2·1	1·5
1878 ...	3·3	2·6	2·4	2·2	·9	·8	·45	2·3	1·6
1879 ...	3·3	2·6	2·5	2·3	·9	·8	·43	2·5	2·0
1880 ...	3·2	2·5	2·5	2·3	·9	·8	·55	2·5	2·2
1881 ...	3·2	2·5	2·5	2·3	1·0	·8	·65	2·5	2·1

Year.		Law and Justice.		Police.		Education.		Political.	Superannuation allowances and Pensions.	
		Gross.	Net.	Gross.	Net.	Gross.	Net.		Gross.	Net.
1882	...	3·2	2·5	2·6	2·4	1·1	·9	·52	2·5	2·2
1883	...	3·2	2·6	2·8	2·5	1·1	·9	·53	2·5	2·2
1884	...	3·3	2·7	2·8	2·5	1·2	1·0	·79	2·5	2·2
1885	...	3·3	2·7	2·8	2·5	1·2	1·0	1·15	2·9	2·5
1886	...	3·3	2·8	3·3	3·0	1·3	1·0	·75	2·9	2·5
1887	...	3·4	2·8	3·7	3·3	1·2	1·0	·68	3·0	2·6
1888	...	3·5	2·9	3·7	3·3	1·2	1·0	·75	3·1	2·7
1889	...	3·5	2·9	3·9	3·5	1·3	1·1	·65	3·1	2·7
1890	...	3·6	2·9	3·8	3·4	1·3	1·1	·77	3·1	2·7
1891	...	3·7	3·0	3·9	3·5	1·4	1·2	·76	3·3	2·9
1892	...	3·7	3·1	3·9	3·5	1·4	1·2	·84	3·6	3·4
1893	...	3·9	3·2	3·9	3·5	1·4	1·2	·96	3·8	3·4
1894	...	3·9	3·2	4·0	3·6	1·5	1·2	·89	4·2	3·8
1895	...	4·0	3·4	4·0	8·6	1·5	1·3	1·1	4·2	3·8
1896	...	4·1	3·5	4·2	3·8	1·5	1·3	1·0	4·1	3·7
1897	...	4·2	3·5	4·2	3·8	1·5	1·3	·93	4·0	3 6
1898	...	4·1	3·4	4·2	3·8	1·5	1·3	·98	4·0	3·7
Average	...	*3·5*	*2·9*	*3·2*	*2·9*	*1·2*	*1·0*	*·73*	*3·0*	*3·6*
1899	...	4·7	4·1	4·2	3·7	1·6	1·3	·72	4 0	3·7
1900	...	4·3	3·7	4·3	3·9	1·6	1·3	·58	4·0	3·7
1901	...	4·3	3·6	4·3	3·9	1·7	1·4	·69	4·0	3·7
1902	...	4·3	3·6	4·5	4·0	1·9	1·8	·82	4 2	3·9
1903	...	4·3	3·6	4·6	4·2	2·0	1·7	·73	4 2	3 9
1904	...	4·5	3·8	4·8	4·3	2·2	1·9	·79	4·3	4·0
1905	...	4·8	4·1	4·6	4·3	2·4	2·0	·94	4·3	4·0

Year.		Law and Justice.		Police.		Education.		Political.	Superannuation allowances and Pensions.	
		Gross.	Net.	Gross.	Net.	Gross.	Net.		Gross.	Net.
1906	...	4·9	4·2	5·2	4·9	2·0	1·7	1·0	4·3	4·0
1907	...	5·1	4·4	5·7	5·4	2·2	1·9	·79	4·5	4·2
1908	...	5·4	4·7	6·3	6·0	2·5	2·2	1·0	4·5	4·2
1909	...	5·4	4·7	6·3	6·0	2·5	2·2	·87	4·5	4·2
1910	...	5·5	4·8	6·4	6·1	2·7	2·4	1·09	4·6	4·3
1911	...	5·7	4·8	6·9	6·6	3·0	2·7	·66	4·8	4·5
1912	...	5·2	4·3	6·9	6·6	3·9	3·5	1·0	4·8	4·5
1913	...	6·0	5·1	7·2	6·9	4·7	4·3	1·16	5·1	4·8
Average	...	*4·9*	*3·4*	*5·4*	*5·1*	*2·4*	*2·2*	*·9*	*4·4*	*4·1*
1914	...	6·4	5·5	7·8	7·6	5·0	4·6	1·7	5·2	4·9
1915	...	6·4	5·3	7·9	7·7	4·7	4·2	1·8	5·2	4·9
1916	...	6·4	5·3	8·1	7·9	5·0	4·6	1·9	5·2	4·9
1917	..	6·4	5 3	8·4	8·2	5·0	4·6	3·1	5·2	4·9
1918	..	7·2	6·0	9·1	8·8	5·0	4 5	4·0	5·2	4·9
1919	...	7·9	6·5	10·2	9·8	6·7	6·4	3·1	4·5	4 2
1920	...	9·2	7·8	12·0	11·6	7·8	7·1	3·5	7·7	4·4
Average	...	*7·1*	*6·0*	*9 0*	*8·8*	*5·6*	*5·1*	*2·7*	*5·0*	*4·7*
1921	...	·1	·07	·9	·8	·3	·29	2·3	3·4	3·1
1922	...	·1	·07	·9	1·0	·3	·29	3·0	3·6	3·3
1923	...	·1	·06	·9	·8	·3	·29	3·0	3·1	3·0
1924	...	·1	·06	·9	·8	·3	·29	3·0	3·0	2·9

TABLE 9.

Showing the Cost of collection and other Direct demands on revenue in crores of Rupees (Ch. VII).

Year.			Direct demands on revenue.	Refunds and drawbacks.	Assignments and Compensations	Cost of collection.
1861	...	...	...	·3	1·8	4·7
1862	...	...	...	·3	1·8	5·0
1863	...	...	...	·3	1·8	5·5
1864	...	...	...	·2	1·8	5·7
1865	...	...	...	·4	1·7	5·2
1866	...	...	...	·3	1·7	4·2
1867	...	...	...	·3	1·8	5·4
1868	...	...	...	·5	1·7	5·4
1869	...	...	...	·4	1·8	5·5
1870	...	...	...	·3	1·7	5·8
1871	...	...	...	·2	1·7	5·3
1872	...	...	...	·3	1·7	5·5
1873	...	...	...	·2	1·8	5·7
1874	...	...	...	·3	1·7	6·0
Average ...		...	...	*·359*	*1·8*	*5·4*
1875	...	...	7·8	·3	·9	6·6
1876	...	...	8·4	·2	·8	7·2
1877	...	...	8·3	·2	·8	7·2
1878	...	...	7·4	·2	1·0	6·1
1879	...	...	7·8	·2	1·1	6·4
1880	...	...	8·0	·3	1·2	6·4
1881	...	...	8·2	·2	1·1	6·7
1882	...	...	8·4	·3	1·1	6·9
1883	...	...	8·4	·3	1·2	6·8
1884	...	...	9·5	·2	1·2	8·0
1885	...	...	9·8	·2	1·3	8·2
1886	...	...	9·7	·2	1·4	8·0
1887	...	...	9·4	·2	1·4	7·7
1888	...	...	9·7	·2	1·4	8·0
1889	...	...	9·9	·2	1·5	7·1
1890	...	...	9·5	·2	1·5	7·7
1891	...	...	9·5	·2	1·5	7·7
1892	...	...	9·4	·2	1·5	7·6
1893	...	...	9·8	·2	1·5	8·0
1894	...	...	9·7	·2	1·5	7·9

Year.		Direct demands on revenue.	Refunds and drawbacks.	Assignments and Compensations	Cost of collection.
1895 ...	...	10·3	·3	1·5	8·4
1896 ...	...	10·9	·3	1·5	9·0
1897 ...	...	10·8	·2	1·5	8·9
1898 ...	...	10·6	·3	1·5	8·8
Average ...	...	*9·2*	*·267*	*1·3*	*7·6*
1899 ...	...	12·1	·3	1·5	9·3
1900 ...	...	11·2	·3	1·5	9·4
1901 ...	...	11·1	·3	1·5	9·3
1902 ...	...	11·4	·4	1·5	9·4
1903 ...	...	12·9	·3	1·8	10·8
1904 ...	...	12·9	·3	1·8	10·8
1905 ...	...	13·2	·3	1·8	11·1
1906 ...	...	13·3	·3	1·8	11·2
1907 ...	...	13·2	·3	1·8	11·1
1908 ...	...	13·0	·3	1·8	10·9
1909 ...	...	13·2	·7	1·8	10·6
1910 ...	...	13·2	·4	1·8	10·9
1911 ...	...	13·0	·4	1·8	10·8
1912 ...	...	12·9	·4	1·8	10·6
1913 ...	...	13·9	·4	1·8	11·7
Average ...	...	*12·8*	*·37*	*1·7*	*10·7*
1914 ...	...	13·3	·6	1·8	10·9
1915 ...	...	14·1	·4	1·9	11·7
1916 ...	...	13·9	·7	1·8	11·4
1917 ...	...	14·7	·9	1·9	11·8
1918 ...	...	17·7	1·8	1·8	14·1
1919 ...	...	18·3	2·2	1·9	14·1
1920 ...	...	22·3	3·2	1·9	17·1
Average ...	...	*16·3*	*1·4*	*1·9*	*13 0*
1921 ...	...	...	...	...	5·3
1922 ...	...	...	...	...	5·2
1923 ...	...	...	...	...	5·6
1924 ...	...	...	...	...	5·5

TABLE 10.

Showing expenditure on "Ordinary Public Works" or "Civil Works" or "Buildings and Roads" in crores of Rs. (Ch. VIII).

Year.	Expenditure.
1861	2·0
1862	2·0
1863	2·5
1864	1·9
1865	1·9
1866	2·7
1867	3·2
1868	3·8
1869	2·6
1870	2·3
1871	2·3
1872	2·4
1873	2·2
1874	2·4
Average ...	*2·4*
Deduct average Military Works ...	*1·0*
Average Civil Works.	*1·4*
1875	3·3
1876	3·3
1877	3·0
1878	3·1
1879	2·9
1880	3·3
1881	3·9
1882	4·3
1883	4·7
1884	4·0
1885	3·5
1886	4·1
1887	4·2
1888	4·2
1889	4·2
1890	4·5
1891	4·9
1892	4·6
1893	4·6
1894	4·3
1895	4·6
1896	4·6
1897	4·2
1898	4·6
Average ..	*4·0*
1899	4·9
1900	4·9
1901	5·4
1902	6·1
1903	6·9
1904	7·2
1905	7·9
1906	6·4
1907	7·0
1908	6·7
1909	6·1
1910	6·7
1911	8·1
1912	9·1
1913	10·5
Average ...	*6·9*
1914	10·7
1915	8·1
1916	8·9
1917	7·5
1918	8·4
1919	10·6
1920	12·6
Average ...	*9·2*
1921	1·5
1922	1·3
1923	1·6
1924	2·1

TABLE 11.

Showing Capital expenditure on Productive Public Works in crores of Rs. (Ch. VIII).

Year.		Railways.	Irrigation.	Delhi.	Total.
1867–74	...	8·6	7·9	...	16·5
1875	...	3·2	1·1	...	4·3
1876	...	2 9	·9	...	3·9
1877	...	4·1	·8	...	4·9
1878	...	3·4	·7	...	4·5
1879	...	2·9	·5	...	3·6
1880	...	3 0	·6	...	3·7
1881	...	2·1	·5	...	2·7
1882	...	1·8	2·7	...	4 6
1883	...	3·3	·7	...	3·5
1884	...	3·5	·7	...	4·2
1885	...	4·7	·5	...	5·2
1886	...	5·1	·5	...	5·6
1887	...	2·2	·5	...	2·7
1888	...	1·1	·4	...	1·6
1889	...	2·7	·3	...	3·1
1890	...	2·8	·4	...	3·3
1891	...	2·7	·7	...	3 5
1892	...	3·4	·5	...	3·9
1893	...	2·9	·6	...	3·6
1894	...	3·8	·5	...	4·4
1895	...	3·3	·7	...	4·0
1896	...	4·2	·7	...	4·9
1897	...	3·6	·6	...	4·3
1898	...	4·2	·6	...	4·9
Total	...	86·8	25·7	...	112·6
Average	...	*3·2*	*·7*	...	*4·0*
1899	...	3·6	·9	...	4·5
1900	...	5·1	·9	...	6·0
1901	...	5·2	·7	...	5·9
1902	...	6·7	·9	...	7·6
1903	...	6·7	·7	...	7·4
1904	...	8·8	·4	...	9·2
1905	...	14·1	·7	...	14·8
1906	...	11·8	1·2	...	13·0

Year.		Railways.	Irrigation.	Delhi.	Total.
1907	...	15·9	1·2	...	17·1
1908	...	14·2	1·3	...	15·5
1909	...	9·4	1·5	...	10·9
1910	...	13·3	1·8	...	15·1
1911	...	10·3	2·4	·007	12·7
1912	...	13·2	2·1	·1	15·4
1913	...	15·7	1·9	·6	18·2
Total	...	154·5	19·3	·7	174·5
Average	...	*10·3*	*1·3*	...	*11·6*
1914	...	15·8	1·7	·5	18·0
1915	...	7·1	1·2	·5	8·8
1916	...	2·9	·8	·3	4·0
1917	...	5·4	·5	·3	6·2
1918	...	7·2	·3	·5	8·0
1919	...	14·2	·2	·5	14·9
1920	...	25·9	·6	1·3	27·8
Total	...	78·5	5·3	3·9	87·7
Average	...	*11·5*	*·7*	*·5*	*12·7*

Year.		Railways.	Irrigation.	Delhi.	Posts and Telegraphs.	Payment for Debentures.	Total.
1921	...	22·9	·01	1·3	·8	·08	25·2
1922	...	18·4	·02	1·8	·6	·6	21·6
1923	...	23·6	...	1·8	·9	1·0	27·4
1924	...	30·0	...	1·5	1·7	1·4	61·7 (*a*)

(*a*) Including 27 crores for Redemption of liabilities involved in the purchase of Railways.

TABLE 12.

Showing the loss or gain to the state on Guaranteed Railways in m. £. (Ch. VIII).

Year.	Loss — Gain +	Year.	Loss — Gain +
1858 ...	... —·6	1889 ...	... —1·5
1859 ...	... —·8	1890 ...	... —1·0
1860 ...	... —1·1	1891 ...	... —1·0
1861 ...	... —1·4	1892 ...	... —1·7
1862 ...	... —1·5	1893 ...	... —1·7
1863 ...	... —1·6	1894 ...	... —2·6
1864 ...	... —1·5	1895 ...	... —1·3
1865 ...	... —·2	1896 ...	... —1·6
1866 ...	... —·7	1897 ...	... —·9
1867 ...	... —1·5	1898 ...	... —·5
1868 ...	... —1·6	1899 ...	... —·04
1869 ...	... —1·5	1900 ...	... +·5
1870 ...	... —1·8	1901 ...	... +·4
1871 ...	... —1·7	1902 ...	... +·2
1872 ...	... —2·1	1903 ...	... +·4
1873 ...	... —1·4	1904 ...	... +1·0
1874 ...	... —1·3	1905 ...	... +1·1
1875 ...	... —1·1	1906 ...	... +1·2
1876 ...	... —·6	1907 ...	... +·7
1877 ...	... +·5	1908 ...	... +·1
1878 ..	... —1·3	1909 ...	... +1·0
1879 ...	... —1·7	1910 ...	... +1 0
1880 ...	... —1·4	1911 ...	... +2·7
1881 ...	... —·6	1912 ...	... +3·6
1882 ...	... —1·0	1913 ...	... +3·5
1883 ...	... —1·0	1914 ...	... +2·4
1884 ...	... —1·2	1915 ...	... +3·7
1885 ...	... —1·2	1916 ...	... +5·6
1886 ...	... —1·1	1917 ...	... +6·7
1887 ...	... —1·4	1918 ...	... +8·2
1888 ...	... —1·7		

TABLE 13.

Showing the Railway Revenue Account in crores of Rs. (Ch. VIII).

Year.			Revenue.	Expenditure.	Net Result.
1875	...	...	4·5	6·1	— 1·5
1876	...	...	5·4	6·6	— 1·1
1877	...	...	7·2	7·3	— ·1
1878	...	...	6·2	8·3	— 2·0
1879	...	...	7·3	8·9	— 1·5
1880	...	...	9·4	10·4	— 1·0
1881	...	...	10·8	11·1	— ·2
1882	...	...	10.9	12·2	— 1·3
1883	...	...	11·9	12·2	— ·3
1884	...	...	11·8	12·9	— 1·0
1885	...	...	13·6	14·4	— ·7
1886	...	...	14·4	15·6	— 1·1
1887	...	...	14·5	16·6	— 2·1
1888	...	...	15·5	17·7	— 2·2
1889	...	...	16·6	18·4	— 1·8
1890	...	...	17·2	17·9	— ·6
1891	...	...	19·9	20·2	— ·3
1892	...	...	19·0	20 9	— 1·8
1893	...	...	20·2	21·8	— 1·5
1894	...	...	21·2	23·5	— 2·3
1895	...	...	21·8	23·4	— 1·6
1896	...	...	20·2	22·9	— 2·6
1897	...	...	21·2	22·6	— 1·4
1898	...	...	22·7	23·6	— ·9
Average	...	...	...	...	— *1·3*
1899	...	...	24·9	24·7	+ ·2
1900	...	...	27·4	26·8	+ ·6
1901	...	...	30·3	29·1	+ 1·2
1902	...	...	30·1	29·8	+ 1·7
1903	...	...	32·2	31·0	+ 1·2
1904	...	...	36 0	32·8	+ 3·2
1905	...	...	19·3	16·3	+ 3·0
1906	...	...	19·3	16·0	+ 3·3
1907	...	...	18·7	16·3	+ 2·4
1908	...	...	14·8	16·8	— 2·0
1909	...	...	18·6	17·4	+ 1·2
1910	...	...	20·8	17·7	+ 3·1
1911	...	...	23·8	18·1	+ 5·7
1912	...	...	26·1	18·9	+ 7·2
1913	...	...	26·4	19·2	+ 7·2
Average	...	...	*24·6*	*22·0*	+ *2·6*
1914	...	...	23·7	20·4	+ 3·3
1915	...	...	26·9	20·9	+ 6·0
1916	...	...	32·0	20·7	+11·3
1917	...	...	36·2	21·3	+14·9
1918	...	...	37·4	21·6	+15·8
1919	...	...	31·8	18·0	+13·8
1920	...	...	25·0	19·4	+ 5·6
Average	...	...	*30·4*	*20·3*	+*10·1*
1921	...	...	15·2	24·3	— 9·1
1922	...	...	26·8	25·6	+ 1·2
1923	...	...	32·4	26·1	+ 6·3
1924	...	...	29·7	25·2	+ 4·5

TABLE 14.

Showing the financial position of all railways including those of Native States and others in crores of Rs. (Ch. VIII).

Year.	No. of miles open for traffic.	Exp. of the year on lines open and partly open.	Exp. to end of the year on same.	Gross earnings.	Working expenses.	Percentage of working expenses to Gross earnings.	Net earnings.	Percentage of net earnings on capital outlay.
1853	20	...	·4	·01	·004	45·6	·005	1·3
1858	427	·04	16·0	·3	·15	45·2	·2	1·1
1863	2,507	·05	53·0	2·2	1·3	60·3	·8	1·6
1868	4,008	·04	84·0	5·7	3·1	54·2	2·6	3·1
1873	5,697	1 7	91·7	7·2	3·8	52·3	3·4	3·7
1879	8,219	5·0	118·3	11·2	5·6	49·9	5·6	4·7
1883	10,450	10·2	148·3	16·3	7·9	48·6	8·4	5·7
1888	14,517	8·6	193·0	19·8	9·9	49 9	9·9	5·1
1890	16,384	7·4	213·7	20·7	10·3	49·9	10·4	·8
1891	17,277	5·7	221·0	24·0	11·3	47·0	12·7	5·7
1892	17,776	5·9	226·7	23·2	10·9	46·9	12·3	5·4
1893	18,465	4·6	232·6	24·0	11·3	47·1	12·7	5·4
1894	18,841	6·5	237·2	25·3	11·9	46·9	13·5	5·7
1895	19,469	24·5	243·7	26·2	12·1	46·2	14·1	5·8
1896	20,176	13·2	268·3	25·3	12·1	47·8	13·2	4·9
1897	21,006	10·7	281·5	25·6	12·4	48·7	13·1	4·6
1898	21,993	16·4	292·2	27·4	12·9	47·3	14·4	4·9
1899	23,476	21·0	308·6	29·4	13·9	47·4	15·4	5·0
1900	24,713	9·6	329·6	31·5	15·1	47·8	16·4	4·9
1901	25,331	10·6	339·2	33·6	15·7	46·8	17·9	5·3
1902	25,898	11·5	349·8	33·9	16·7	49·2	17·2	4·9
1903	26,851	6·8	(a) 341·1	36·0	17·1	47·5	18·9	5·5
1904	27,557	10·6	347·9	39·7	18 8	47·4	20·9	6·0
1905	28,287	12·8	358·5	41·7	19 9	47·8	21·7	6·1
1906	29,089	20·6	371·3	44·1	22·0	49·9	22·1	5·9
1907	29,957	20·0	391·9	47·3	24·3	51·4	22·9	5·8
1908	30,576	17·9	411·9	44 8	27·0	60·2	17·8	4·3
1909	31,490	9·2	429·8	47·0	26 4	56·0	20·6	4·8
1910	32,099	17·9	439·0	51·1	27·1	53·1	23·9	5·4
1911	32,839	11·0	450·1	55·3	28·8	52·2	26·4	5·9
1912	33,484	15·1	465·1	61·6	30·2	48·9	31·5	6·8
1913	34,656	29·9	495·1	63·6	32·9	51 8	30·6	6·2
1914	35,285	24·1	519·2	60·4	32·7	54·2	27·7	5·3
1915	35,833	10·8	530·0	64·6	32·9	50·9	31·7	6·0
1916	36,286	5·3	535·3	70·7	33·4	47·3	37·3	7·0
1917	36,333	6·5	541·8	77·4	35·3	45·7	41·9	7·8
1918	36,616	7·9	549·7	86·3	41·8	48·4	44·5	8·1
1919	36,735	16·6	566·3	89·2	50·6	56·8	38·5	6·8
1920	37,029	26·1	626·8	92.0	60·3	65·5	31·7	5·0
1921	37,266	21·2	648·0	92·9	70·8	76·2	22·1	3·4
1922	37,618	21·0	669·0	105·6	73·0	69·1	32·6	4·9

(a) The decrease is due to a revision of the figures on a different plan.

TABLE 15.

Showing Irrigation Revenue Account in crores of Rs.
(Ch. VIII.)

Year.		Revenue.	Expenditure.	Net charge.	Portion of land revenue credited to irrigation.	Real net charge.
1875	...	·5	1·7	1·1	......	1·1
1876	...	·5	1·6	1·0	......	1·0
1877	...	·8	1·8	·9	·1	1·1
1878	...	·9	1·7	·8	·1	·9
1879	...	1·5	1·8	·3	·6	·9
1880	...	1·6	1·9	·2	·7	1·0
1881	...	1·4	2·0	·5	·4	1·0
1882	...	1·5	2·2	·7	·4	1·1
1883	...	1·6	2·1	·5	·5	1·0
1884	...	1·6	2·2	·5	·4	1·0
1885	...	1·5	2·3	·7	·5	1·2
1886	...	1·6	2·3	·6	·5	1·2
1887	...	1·7	2·4	·7	·6	1·3
1888	...	1·9	2·6	·7	·6	1·3
1889	...	1·9	2·6	·6	·6	1·3
1890	...	2·1	2·7	·5	·7	1·2
1891	...	2·2	2·9	·6	·6	1·3
1892	...	2·4	2·9	·5	·7	1·2
1893	...	2·2	2·8	·5	·7	1·3
1894	...	2·3	2·9	·6	·7	1·3
1895	...	2·3	2·9	·6	·8	1·4
1896	...	3·1	3·2	·1	·8	·9
1897	...	3·5	3·1	– ·4	·9	·5
1898	...	3·4	3·1	– ·2	1·0	·7
Average	...	......	......	*·5*	......	*1·1*
1899	...	3·6	3·3	+ ·3	1·0	– ·7
1900	...	3·7	3·4	+ ·3	1·1	– ·8

Year.		Revenue.	Expenditure.	Net charge.	Portion of land revenue credited to irrigation.	Real net charges.
1901	...	3·7	3·4	+ ·3	1·2	– ·9
1902	...	4·0	3·9	+ ·1	1·2	– 1·1
1903	...	4·3	4·0	+ ·3	1·2	– ·9
1904	...	4·5	4·2	+ ·3	1·3	– 1·0
1905	...	4·5	4·3	+ ·2	1·3	– 1·1
1906	...	5·2	4·0	+ ·8	1·5	– ·7
1907	...	5·2	4·2	+ 1·0	1·5	– ·5
1908	...	5·2	4·3	+ ·9	1·6	– ·7
1909	...	5·4	4·5	+ ·9	1·6	– ·7
1910	...	5·5	4·6	+ ·9	1·7	– ·8
1911	...	5·8	4·8	+ 1·0	2·0	– 1·0
1912	...	6·6	4·9	+ 1·7	2·3	– ·6
1913	...	7·0	5·2	+ 1·8	2·5	– ·7
Average	...	......	......	......	......	– ·8
1914	...	7·1	5·6	1·5	2·4	– ·9
1915	...	7·2	5·6	1·6	2·7	– 1·1
1916	...	7·7	5·3	2·4	2·7	– ·3
1917	...	7·5	5·7	1·8	2·6	– ·8
1918	...	8·0	5·9	2·1	2·9	– ·8
1919	...	8·7	6·3	2·4	3	– ·6
1920	...	8·8	7·0	1·8	2·8	– 1·0
Average	...	......	......	......	......	– ·8

TABLE 16.

Showing the Financial results of all Irrigation Works in crores of Rs. (Ch. VIII).

Year.	Total Capital outlay.	Gross Receipts	Working Expenses.	Net Receipts.	Percentage of net receipts to capital outlay.	Percentage of working expenses to Gross receipts.
1891	31·3	2·5	1·1	1·4	3·6	58·3
1892	32·9	2·8	1·1	1·7	5·7	47·3
1893	32·8	2·6	1·1	1·5	9·3	47·9
1894	34·5	2·7	1·1	1·5	5·4	49·7
1895	35·3	2·6	1·1	1·5	4·7	51·9
1896	36·4	3·5	1·2	2·3	6·2	41·7
1897	37·1	3·9	1·2	2·7	7·2	39·4
1898	37·9	3·7	1·2	2·5	6·7	37·9
1899	38·9	3·8	1·3	2·5	5·7	42·6
1900	40·7	4·1	1·3	2·7	6·49	38·5
1901	41·0	4·1	·1·3	2·7	7·2	35·6
1902	42·1	4·4	1·4	3·0	7·2	35·0
1903	43·2	4·6	1·4	3·1	7·7	32·6
1904	44·2	4·8	1·5	3·2	6·7	37·1
1905	45·6	4·7	1·6	3·1	5 7	37·5
1906	47·4	5·6	1·7	3·8	6·8	36·7
1907	49·8	5·3	1·7	3·5	6·2	37·9
1908	51·6	5·4	1·8	3·6	5·8	42·6
1909	53·9	5·6	1·9	3·7	6·8	38·1
1910	56·4	5·7	1·9	3·7	6·4	40·2
1911	59·4	6·1	2·0	4·1	6·4	43·3
1912	61·9	6·7	2·1	4·6	6·9	42·9
1913	61·3	7·2	2·1	5·0	7·9	39·8
1914	67·5	7·2	2·2	4 9	6·9	44·9
1915	69·6	7·3	2·4	4·9	6·7	46·6
1916	71·0	7·8	2·8	5·4	6·9	45·9
1917	72·3	7·6	2·4	5·2	5·8	51·5
1918	74·2	8·1	2·5	5·6	6·7	49·3
1919	73·9	8·8	2·7	6·1	7·59	44·5
1920	75·2	8·9	3·2	5·7	6 0	43·5

TABLE 17.

Showing the expenditure and receipts on Posts and Telegraphs and Mint, together or separately, as available, in crores of Rupees (Ch. VIII.)

POSTS, TELEGRAPHS AND MINT.

Year.			Expenditure.	Receipts.	Net Result.
1861	...	...	1·1	·8	—·2
1862	...	...	1·1	·8	—·2
1863	...	...	1·3	·9	—·4
1864	...	...	·9	·8	—·09
1865	...	...	·9	1·0	—·1
1866	...	...	1·1	·9	—·2
1867	...	...	1·2	1·0	—·1
1868	...	...	1·4	1·1	—·3
1869	...	...	1·3	1·1	—·2
1870	...	...	1·3	1·0	—·2
1871	...	...	1·1	1·1	—·04
1872	...	...	1·2	·8	—·3
1873	...	...	1·2	·9	—·3
1874	...	...	1·3	1·1	—·1
Average	...	...	...	...	—·*221*
1875	...	...	1·5	1·1	—·3
1876	...	...	1·5	1·4	—·1
1877	...	...	1·5	1·6	·04
1878	...	...	1·7	1·5	—·1
1879	...	...	1·7	1·7	—·007
1880	...	...	1·8	1·6	—·1
1881	...	...	1·8	1·4	—·3
1882	...	...	1·9	1·6	—·2
1883	...	...	2·0	1·6	—·3
1884	...	...	2·1	1·7	—·3
1885	...	...	2·2	1·9	—·3
1886	...	...	2 1	2·0	—·1
1887	...	...	2·2	2·2	—·02
1888	...	...	2·1	2·2	·09
1889	...	...	2·2	2·3	·1
1890	...	...	2·2	2·5	·2
1891	...	...	2·4	2·5	,1
1892	...	...	2·5	2·7	·2
1893	...	...	2·5	2·7	·1
1894	...	...	2·4	2·6	·1
1895	...	...	2·5	2·8	·2
1896	...	...	2·7	3·0	·2
1897	...	...	2·8	3·3	·5
1898	...	...	2·8	3·0	·2

Average, 1875 to 1887—Rs. 19,50,000.
Average, 1888 to 1898+Rs.·22,40,000.

Year.		POSTS AND TELEGRAPHS. Expenditure.	Receipts.	Net Result.	MINT. Expenditure.	Receipts.	Net Result.
1899	...	1·8	3·1	+1·3	·08	·51	+ ·43
1900	...	3·0	3·3	+ ·3	4·72	4·75	+ ·3
1901	...	3·1	3·3	+ ·2	·75	·83	+ ·8
1902	...	3·3	3·3	...	·63	·61	— ·2
1903	...	3·4	3·4	...	4·2	4·32	+ ·15
1904	...	3·6	3·6	...	·17	·30	+ ·13
1905	...	3·9	3·7	—·2	·18	·46	+ ·28
1906	...	4·0	4·0	...	·24	·62	+ ·38
1907	...	4·2	4·2	...	·24	·66	+ ·42
1908	...	4·3	4·0	- ·3	·28	·15	— ·13
1909	...	4·3	4·2	- ·1	·21	·18	— ·3
1910	...	4·3	4·3	...	·14	·29	+ ·15
1911	...	4·5	4·8	+ ·3	·17	·55	+ ·38
1912	...	4·6	5·1	+ ·7	·21	·73	+ ·52
1913	...	4·8	5·2	+ ·7	·19	·53	+ ·34
Average	...	*3·9*	*4·0*	*+ ·1*	*·82*	*1·03*	*+ ·21*
1914	...	4·8	5·2	+ ·4	·21	·10	— ·11
1915	...	5·5	4·6	- ·9	·15	·13	— ·2
1916	...	5·1	6·1	- 1·0	·25	1·03	+ ·78
1917	...	5·2	6·9	+1·7	·25	·77	+ ·52
1918	...	5·8	7·9	+2·1	·15	2·73	+2·58
1919	...	6·8	9·2	+2·4	·48	2·67	+2·19
1920	...	9·6	9·4	+ ·2	1·28	·73	+1·14
Average	...	*6·1*	*7·0*	*+ ·9*	*·25*	*1·18*	*+ ·93*
		CURRENCY, MINT AND EXCHANGE.					
1921	...	1·6	·6	-1·0	1·1	4·4	+3·3
1922	...	·77	1·2	+ ·4	1·0	3·6	+2·6
1923	...	·1	·8	+ ·7	1·1	3·1	+2·0
1924	...	—·1	1·1	+1·2	·77	3·6	+2·8

TABLE 18.

Showing Public Debt and interest charges in crores of Rs. from 1834—1874. (Ch. X).

Year.			Debt.	Interest.	Interest on other obligations.
1834	...	...	36·9	1·7	......
1835	...	...	32·2	1·4	......
1836	...	...	32·6	1·4	......
1837	...	...	31·8	1·4	......
1838	...	...	29·9	1·3	......
1839	...	...	30·0	1·3	......
1840	...	...	31·2	1·4	......
1841	...	...	33·5	1·5	......
1842	...	...	35·8	1·6	......
1843	...	...	37·3	1·7	......
1844	...	...	38·7	1·7	......
1845	...	...	38·9	1·7	......
1846	...	...	41·8	1·9	......
1847	...	...	43·9	2·0	......
1848	...	...	45·6	2·1	......
1849	...	...	48·3	2·2	......
1850	...	...	49·3	2·2	......
1851	...	...	49·1	2·2	......
1852	...	...	49·7	2·2	......
1853	...	...	47·0	1·8	......
1854	...	...	45·8	1·8	......
1855	...	...	47·9	1·9	......
1856	...	...	49·2	2·0	......
1857	...	...	59·9	2·5	......
1858	...	...	71·5	3·1	......
1859	...	...	88·1	3·9	......
1860	...	...	93·0	4·2	......
1861	...	...	96·7	4·7	·3
1862	...	...	96·5	4·9	·5
1863	...	...	90·6	4·6	·4

Year.		Debt.	Interest.	Interest on other obligations.
1864 ...	...	90·4	4·6	·4
1865 ...	...	90·2	4·6	·5
1866 ...	...	92·2	4·4	·4
1867 ...	...	94·0	4·9	·8
1868 ...	...	95·3	5·0	·5
1869 ...	...	102·7	4·9	·6
1870 ...	...	106·3	5·3	·5
1871 ...	...	108·9	5·4	·4
1872 ...	...	107·3	5·3	·5
1873 ...	...	109·4	5·2	·5
1874 ...	...	117·0	5·0	·3
Average from 1861—1874 ...	...	......	*4·9*	*·5*

TABLE 19.

Showing the Public Debt of India in two divisions "Productive Debt" and "Ordinary Debt," with interest from 1875—1924, in crores of Rs. (Ch. X).

Year.		Railways. (1)	Irrigation. (2)	Total productive debt. (3)	Total ordinary debt. (4)	Interest on (1). (5)	Interest on (2). (6)	Total interest on (3). (7)	Interest on (4). (8)	Interest on other obligations. (9)
1875	...	11·7	8·7	20·4	102·0	·4	·5	·9	4·4	·3
1876	...	14·6	9·6	24·3	103·0	·5	·5	1·1	4·6	·3
1877	...	18·6	10·4	29·0	105·5	·7	·6	1·3	4·7	·3
1878	...	21·9	11·2	33·2	104·6	·8	·6	1·5	5·0	·3
1879	...	34·0*	11·8	45·9	105·8	1·0	·6	1·7	5·0	·3
1880	...	38·1	17·2	55·4	101·9	1·6	·7	2 3	4·2	·4
1881	...	40·8	18·4	59·2	97·6	1·8	·7	2·6	4·3	·5
1882	...	43·1	20·7	63·8	95·3	2·0	·8	2·8	4·2	·4
1883	...	46·8	21·4	68·3	92·9	2·1	·8	3·0	4 0	·4
1884	...	51·5	22·1	73·7	88·6	2·3	·9	3·3	4·1	·4
1885	...	67·2	24·6	91·8	74·6	2·6	·9	5·6	3·8	·4
1886	...	77·6	25·2	102·9	73·9	3·2	·9	4·1	3·9	·3
1887	...	80·0	25·9	105·9	76 3	3 3	1·0	4·3	5·0	·3
1888	...	91·8	26 4	118·2	77·6	3 6	1·0	4·6	4·2	·4
1889	...	94 6	26·9	121 5	79·4	4·0	1·0	5·1	3·8	·4
1890	...	102·2	27·4	129·7	77·4	4·1	1·0	5·2	3·7	·4
1891	...	105 7	28·3	134·0	76·0	4·6	1·1	5·7	3·8	·4
1892	...	110·6	28·9	139·5	70·0	5·1	1·1	6·2	3·8	·5
1893	...	114·7	29 6	144·3	69·2	5·3	1·1	6·5	3·8	·5
1894	...	119·1	30·3	149·4	68·8	5·7	1·1	6·9	4·6	·4
1195	...	123·1	31·1	154·2	63·4	5·7	1 2	7·0	3·4	·6
1896	...	127·4	31·8	159·3	63·6	5·8	1·2	7·1	2·9	·4
1897	...	131 0	32·6	163·6	65·2	5 9	1·2	7·2	2·9	·5
1898	...	136·0	33·3	169·3	63·0	6·0	1·3	7·3	2·5	·5
Average	...	...	...	...	...	...	...	*4·2*	*4·0*	*·4*

* Includes 9·7 crores of Rs. for the purchase of the East Indian Railway.

Year.		Railways.	Irrigation.	Total productive debt.	Total ordinary debt.	Interest on (1).	Interest on (2).	Total interest on (3).	Interest on (4).	Interest on other obligations.
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1899	...	156·7	34·2	190·9	100·8	6·1	1·2	7·3	2·4	·45
1900	...	167·7	35·1	202·8	104·8	6·6	1·3	7·9	2·7	·45
1901	...	171·6	36·1	207·7	103·8	6·7	1·3	8·1	2·4	·45
1902	...	176·7	37·2	213·9	98·8	7·0	1·3	8·4	2·1	·60
1903	...	183·9	38·2	222·1	93·7	7·2	1·5	8·7	1·9	·60
1904	...	191·5	39·1	230·6	90·0	7·5	1·5	9·0	1·8	·60
1905	...	223·5	40·5	264·0	81·6	7·9	1·5	9·4	1·3	·60
1906	...	252·4	42·3	294·7	56·8	8·2	1·3	9·6	2·1	·75
1907	...	266·5	44·8	311·3	56·1	8·5	1·3	9·9	1·9	·75
1908	...	273·3	46·0	319·3	56·5	9·0	1·5	10·5	2·1	·75
1909	...	279·7	48·3	328·0	63·7	9·1	1·5	10·6	2·2	·75
1910	...	293·7	50·7	344·4	60·6	9·4	1·6	11·1	2·4	·75
1911	...	304·5	53·5	358·0	49·6	9·6	1·8	11·7	2·1	·90
1912	...	317·7	56·2	373·9	37·5	10·6	1·9	12·6	1·7	·90
1913	...	332·8	59·1	391·9	19·1	10·9	1·9	12·9	1·1	1·2
Av rage	...	...	...	...	...	...	...	...	*2·0*	*·69*
1914	...	349·6	61·6	411·2	3·3	11·8	2·1	13·9	·6	1·1
1915	...	351·4	63·6	415·2	3·0	12·0	2·1	14·1	·7	1·0
1916	...	353·5	64·9	418·4	5·5	11·6	2·1	13·7	·6	1·0
1917	...	358·6	65·8	424·4	100·8	12·2	2·2	14·4	9·7	1·2
1918	...	365·4	66·6	432·0	70·1	12·4	2·3	14·7	10·5	1·6
1919	...	378·6	67·5	446·1	62·3	13·1	2·3	15·4	11·5	1·9
1920	...	377·4	68·8	446·2	97·9	15·1	2·4	17·5	12·3	2·1
Average	...	...	...	...	...	...	...	...	*6·5*	*1·4*

Year.		Interest on Railway debt.	Interest on Irrigation debt	Interest on Post and Telegraph debt.	Interest charged to Provincial Governments.	Interest on Ordinary debt.	Interest on other obligations.	Reduction or avoidance of debt.	Total Debt Services.
1921 (*a*)	...	15·6	·1	·6	2·6	11·1	2·6	2·3	16·0
1922	...	16·3	·1	·6	3·0	10·8	3·1	2·3	16·1
1923	...	17·4	·1	·6	3·7	12·3	3·1	1·4	16·7
1924	...	19·0	.1	·7	4·5	10·7	3·6	3·9	18·3

(*a*) The details about Productive and Ordinary debt are not available . those for 1924 have been given in the text.

TABLE 20.

Showing Rupee and Sterling Debt, with interest, and the amounts of Rupee Debt held by Indians and Europeans in crores of Rupees and millions of pounds. (Ch. X.)

Year.		Rupee Debt registered in India, in crores of Rs.	Sterling Debt registered in England in m. £.	Interest on Rupee Debt crores.	Interest on Sterling Debt in m. £.	Portion of the Rupee Debt held by Europeans crores Rs.	Portion of the Rupee Debt held by Natives of India crores Rs.	Portion of the Rupee Debt held in London crores Rs.
1820	...	27·2	5·7	1.6	·2	...	...	...
1830	...	33·1	3·7	1·7	·09	...	...	...
1840	...	29·4	1.7	1·3	·34	...	...	...
1850	...	45·4	3·9	2·1	·1	...	...	...
1860	...	63·4	28·4	2·8	1·2	...	...	...
1861	...	63·4	32·1	2·8	1·4	...	...	...
1862	...	63·8	31·8	2·8	1·4	...	...	...
1863	...	63·4	26·3	2·8	1·2	...	...	...
1864	...	63·4	26·1	2·8	1·2	...	...	...
1865	...	62·3	26·9	2·8	1·2	...	...	...
1866	...	62·9	28·5	2·8	1·4	...	...	...
1867	...	63·7	29·7	2·9	1·4	47·4	14·7	...
1868	...	63·4	31·2	2·8	1·4	...	...	15·3
1869	...	65·5	35·2	2·9	1·6	...	...	16·2
1870	...	66·8	37·6	2·0	1·7	...	...	17·6
1871	...	67·9	39·0	2·9	1·7	50·1	15·5	13·5
1872	...	66·4	39·0	2·8	1·8	48·0	17·1	13·0
1873	...	66·4	41·1	2·8	1·8	...	...	13·2
1874	...	69·8	48·5	3·0	2·1	53·4	19.3	14·4
Average	...	...	...	*2·9*	*1·3*	...	...	...
1875	...	72·7	49·7	3·1	2·2	...	...	15·4
1876	...	71·9	55·3	3·1	2·4	...	...	14·2
1877	...	74·9	59·6	3·2	2·6	55·8	22·6	15·7
1878	...	78·8	59·0	3·2	2·5	59·7	23·0	17·1
1879	...	82·8	68·8	3·4	1·9	61·6	21·0	20·5
1880	..	85·9	71·4	3·5	2·8	70·0	18·7	20·2
1881	...	88·6	68·1	3·6	2·7	68·8	21·6	22·6
1882	...	90·6	68·5	3·7	2·7	68·4	24·4	22·5
1883	...	93·1	68·1	3·8	2·7	68·6	24·3	22·0
1884	...	93·1	69·2	3·8	2·6	66·5	25·3	21·8
1885	...	92·7	73·8	3·7	2·8	67·6	24·9	20·7
1886	...	92·6	84·2	3·8	3·1	68·5	29·4	19·1
1887	...	98·0	84·1	4·0	2·9	70·8	30·0	20·8
1888	...	100·8	95·0	4·1	3·2	72·1	30·5	21·7

Year.		Rupee Debt registered in India, in crores of Rs.	Sterling Debt registered in England in m.£.	Interest on Rupee Debt crores.	Interest on Sterling Debt in m. £.	Portion of the Rupee Debt held by Natives of India crores Rs.	Portion of the Rupee Debt held by Europeans crores Rs.	Portion of the Rupee Debt held in London crores Rs.
1889	...	102·7	98·1	4·2	3·3	72·8	29·8	21·5
1890	...	102·7	104·4	4·1	3·5	73·5	29·1	26·7
1891	...	102·6	104·4	4·1	3·6	73·6	29·3	27·5
1892	...	102·9	106·6	4·1	3·5	74·6	31·0	25·9
1893	...	105·5	114·1	4·2	3·6	70·8	34·5	24·1
1894	...	104·3	116·0	3·6	3·8	74·2	29·7	23·6
1895	...	103·7	115·9	3·6	3·6	79·8	29·6	25·3
1896	...	109·1	114·8	3·7	3·8	79·2	32·5	24·0
1897	...	111·6	123·2	3·8	3·9	64·8	47·8*	21·5
1898	...	112·6	124·2	3·9	3·8	65·9	46·4	21·4
Average	...	...	...	*3·7*	*3·1*	...	...	...
1899	...	112·5	124	3·9	3·8	65·9	48·5	20·8
1900	...	115·3	133	4·0	4·1	65·3	47·3	22·2
1901	...	116·2	134	4·0	4·2	71·9	44·3	20·4
1902	...	117·6	133	4·1	4·2	69·1	48·4	18·6
1903	...	119·4	133	4·1	4·2	68·8	50·7	17·1
1904	...	122·3	132	4·2	4·2	71·4	50·9	16·8
1905	...	126·1	146	4·4	4·7	71·3	54·8	16·4
1906	...	130·5	147	4·5	4·7	71·9	58·6	16·5
1907	...	132·8	156	4·6	5·1	73·2	59·7	15·2
1908	...	134·6	160	4·7	5·2	72·7	61·9	14·4
1909	...	136·8	170	4·8	5·5	75·6	61·2	15·2
1910	...	138·1	177	4·8	5·6	72·9	65·2	12·8
1911	...	139·9	178	4·9	5·7	70·4	69·6	11·7
1912	...	142·8	179	4·9	5·7	73·4	69·4	11·2
1913	...	145·7	179	5·1	5·6	69·1	76·6	10·1
Average	...	...	...	*3·7*	*4·8*	...	...	...
1914	...	150·5	176	5·3	5·6	70·4	80·3	9·7
1913	...	155·5	175	5·5	3·6	73·5	81·9	8·8
1916	...	162·9	174	5·7	5·6	76·4	85·6	8·3
1917	...	170·1	236	5·1	8·8	100·4	101·7	7·5
1918	...	199·1	202	8·0	7·1	...	...	8·2
1919	...	219·4	192	9·0	6·6	...	...	6·8
1920	...	257·1	192	11·3	6·6	...	...	...
Average	...	...	...	...	...	...	...	...

***This large increase in the holdings of the natives of India and the corresponding decrease in the holdings of Europeans, are due to the rectification of an error in classification in the Public Debt Office, where until 1897, notes presented for payment of interest by the Banks were treated as held by Europeans, though the owners were often natives of the country.**

TABLE 21.

Showing the composition of the Debt in certain selected years. (Ch. X).

RUPEE DEBT IN CRORES OF RS.

Percentage etc.	1861	1875	1898	1913	1919
5½	10 6	10 2	......	......	29·4
5	18·6	......	......	......	46·0
4½	·4	16·0	1·0	1·0	1·0
4	33·8	45·3	4·9	3·2	17·4
3½	·08	·06	95·1	133·1	119·1
3	......	......	11·0	8·2	6·6
2½	......	......	......	......	......
Debenture loans and 4 per cent. Stock Notes ...	......	1·1	......	......	......
Provincial debenture loans ...	......	......	·08	......	......
Total ...	63·4	72·7	112·3	145·6	219·5
Total interest charges ...	2·9	3·1	3·9	5·1	9·0
Average rate of interest on total debt ...	4·41	4·26	3·47	3·5	4·11

STERLING DEBT IN M. £.

	1861	1875	1898	1913	1919
5	15·7	17·2	......	......	21·8
3½	......	......	63·5	91·2	89·6
3	......	......	42·1	66 2	65·1
2½	......	......	11·8	11·8	11·7
India debentures 5 per cent ...	1[illegible]·0	......	......	......	......
"Home" Bond debt ...	3·3	3·9	......	......	......
India debentures 4 per cent ...	......	7·0	......	......	......
India Bills	......	......	4·5	......	......
Railway debentures ...	......	......	2·2	5·3	4·9
Total ...	32·0	49·7	124·2	177·0	192·6
Total interest charges ...	1·4	2·2	3·8	5·7	6·6
Average rate of interest on total debt ...	4·37	4·42	3·05	3·22	3·03

TABLE 22.

Showing "Receipts" under "Interest" in crores of Rs.
(Ch. X.)

Year.		Receipts.	Year.		Receipts.
1861	...	·03	1894	...	·82
1862	...	·05	1895	...	·83
1863	...	·07	1896	...	1·08
1864	...	·25	1897	...	·88
1865	...	·30	1898	...	1·06
1866	...	·27	*Average*	...	*·80*
1867	...	·24	1899	...	·90
1868	...	·24	1900	...	·97
1869	...	·36	1901	...	1·17
1870	...	·34	1902	...	1·3
1871	...	·36	1903	...	1·34
1872	...	·51	1904	...	1·27
1873	...	·45	1905	...	1·4
1874	...	·54	1906	...	1·45
Average	...	*·29*	1907	...	1·44
1875	...	·58	1908	...	1·48
1876	...	·55	1909	...	1·77
1877	...	·54	1910	...	2·19
1878	...	·63	1911	...	2·17
1879	...	·75	1912	...	2·2
1880	...	·92	1913	...	2·02
1881	...	·91	*Average*	...	*1·598*
1882	...	·70	1914	...	1·5
1883	...	·86	1915	...	1 5
1884	...	·71	1916	...	1·69
1885	...	·70	1917	...	3·25
1886	...	·67	1918	...	5·73
1887	...	·75	1919	...	5·05
1888	...	·84	1920	...	3·58
1889	...	·87	*Average*	...	*3·18*
1890	...	·93	1921	...	1·1
1891	...	·88	1922	...	1·0
1892	...	·87	1923	...	1·1
1893	...	·88	1924	...	1·1

TABLE 28.

Showing the total of English Charges with details as far as available in m. £. (Ch. XI).

Year.		East India Stock.	Interest on Debt and other obligations.	Marine.	Military.	Civil.	Guaranteed interest or Railway and Irrigation Account.	Stores.	Total.
1861	...	·6	1·4	·04	2·5	·6	1·8	1·0	8·0
1862	...	·6	1·5	·10	2·1	·6	2·2	·7	8·0
1863	...	·6	1·4	·09	1·8	·8	2·5	·4	8·0
1864	...	·6	1·2	·06	2·3	·6	2·7	·6	8·1
1865	...	·6	1·3	·06	2·4	·6	2·9	1·2	9·0
1866	...	·6	1·3	·06	2·8	·7	3·0	·9	9·5
1867	...	·6	1·5	·06	2·7	·8	3·5	1·0	10·2
1868	...	·6	1·5	·10	2·4	1·6	3·9	1·4	11·6
1869	...	·3	1·6	·25	2·6	1·3	4·1	1·4	11·8
1870	...	·6	1·7	·21	2·6	1·4	4·4	1·3	12·3
1871	...	·6	1·8	·11	2·7	1 5	4·5	1·2	12·5
1872	...	·6	1·8	·13	2·7	1·7	4·6	1·1	12·8
1873	...	·6	1·8	·11	2·5	1·7	4·6	1·2	12·5
1874	...	·2	2·0	·12	2·5	1·8	4·7	1·6	13·0
Average	...	*·6*	*1·6*	*·11*	*2·5*	*1·1*	*3·5*	*1·1*	*10·6*
1875	...	...	2·2	·12	2·5	1·9	4·7	1·5	12·9
1876	...	...	2·3	·11	2·8	2·0	4·7	1·5	13·5
1877	...	..	2·5	·12	3·1	2·1	4·7	1·5	14·0
1878	...	...	2·6	·12	3·2	2·1	4·7	1·1	13·9
1879	...	...	2.7	·11	3·4	2·1	4·8	1·4	14·5
1880	...	...	2·3	·11	3·4	2·2	4·7	1·8	14·4
1881	...	...	2·5	·06	3·4	2·2	4·9	1·3	14·4
1882	...	...	2·5	·05	3·4	2·1	4·9	1·1	14·1
1883	...	...	2·4	·12	4·5	2·2	4·8	·9	15·0
1884	...	...	2·6	·10	3·5	2·2	4·8	·9	14·1
1885	...	...	2·4	·07	2·8	2·3	5·1	1·4	14·0
1886	...	...	2·6	·07	3·1	2·3	5·3	1·1	14·4
1887	...	...	3·3	·07	3·1	2·4	5·4	1·1	15·4
1888	...	...	2·7	·04	3·2	2·3	5·7	1·1	15·0
1889	...	...	2·4	·05	3·5	2·3	5·6	1·0	14·8
1890	...	...	2·5	·04	3·4	2·3	5·7	1·5	15·6
1891	...	...	2·6	·06	3·5	2·5	5·7	1·7	16·0
1892	...	...	2·4	·10	4·0	2·6	5·7	1·5	16·3

Year.	East India Stock.	Interest on Debt and other obligations.	Marine.	Military.	Civil.	Guaranteed interest or Railway and Irrigation Account.	Stores.	Total.
1893	... ...	2·5	·11	3·6	2·5	5·7	1·3	15·8
1894	... ...	2·6	·11	3·7	2·6	5·7	1·0	15·7
1895	... ...	2·6	·18	3·6	2·6	5·7	·8	15·6
1896	... ...	2·6	·16	3·7	2·6	5·8	·9	15·8
1897	... ...	2·9	·16	3·7	2·7	5·8	·9	16·2
1898	... ...	2·8	·15	3·8	2·8	5·9	·9	16·3
Average	... ...	*2·6*	*·10*	*3·4*	*2·3*	*5·3*	*1·2*	*14·9*
1899	... ...	2·9	·16	3·7	2·5	6·0	·9	16·4
1900	... ...	3·1	·19	3·4	2·4	6·2	1·6	17·2
1901	... ...	3·0	·17	2·9	2·5	6·5	1·9	17·4
1902	... ...	3·0	·17	4·0	2·5	6·6	1·9	18·4
1903	... ...	3·0	·10	3·8	2·5	6·6	1·9	18·1
1904	... ...	3·0	·10	3·9	2·6	6·7	2·9	19·5
1905	... ...	3·0	·11	3·7	2·5	6·8	2·2	18·6
1906	... ...	1·7	·10	3·9	2·8	8·2	2·5	19·2
1907	... ...	1·8	·13	4·0	2·6	8·3	1·5	18·5
1908	... ...	1·9	·13	4·2	2·7	8·4	1·3	18·9
1909	... ...	2·1	·13	4·2	2·7	8·8	1·1	19·1
1910	... ...	2·3	·13	4·4	2·7	8·9	1·0	19·6
1911	... ...	2·3	·14	4·3	2·8	9·0	1·2	20·0
1912	... ...	2·3	·14	4·4	2·7	9·2	1·5	20·3
1913	... ...	2·1	·14	4·4	2·8	9·2	1·5	20·3
Average	... ...	*2·5*	*·14*	*4·1*	*2·5*	*6·9*	*1·6*	*18·9*
1914	... ...	2·2	·13	4·0	2·4	9·4	0·4	20·2
1915	... ...	2·3	·13	4·0	2·5	9·5	0·3	20·1
1916	... ...	2·0	·13	3·6	2·5	9·6	2·7	20·1
1917	... ...	6·2	·13	3·6	2·4	9·7	3·3	26·1
1918	... ...	4·6	·13	4·0	2·4	9·5	2·0	23·6
1919	... ...	3·8	·16	5·2	3·0	9·6	3·4	26·0
1920	... ...	3·3	·17	7·4	3·7	9·8	6·3	31·0
Average	... ...	*3·5*	*·14*	*4·6*	*2·6*	*9·6*	*2·9*	*23·9*

TABLE 24.

Showing the details of "Civil" expenditure in England in thousands of £. (Ch. XI).

Year.		India office.	Pensions.	Fur-lough.
1861	...	117	237	88
1862	...	118	232	80
1863	...	117	228	72
1864	...	118	221	68
1865	...	120	221	77
1866	...	122	199	79
1867	...	126	218	99
1868	...	129	682	122
1869	...	132	715	158
1870	...	134	769	175
1871	...	131	823	173
1872	...	130	836	156
1873	...	132	843	258
1874	...	133	1081	217
Average.		*125*	*823*	*130*
1875	...	137	1123	228
1876	...	135	1206	235
1877	...	134	1242	235
1878	...	137	1222	227
1879	...	136	1239	210
1880	...	132	1283	217
1881	...	134	1277	218
1882	...	137	1307	211
1883	...	135	1336	217
1884	...	137	1343	198
1885	...	139	1426	196
1886	...	138	1499	188
1887	...	138	1522	215
1888	...	136	1538	216
1889	...	136	1556	204
1890	...	134	1610	174
1891	...	136	1655	197
1892	...	135	1744	208
1893	...	134	1624	197
1894	...	132	1734	220
1895	...	131	1763	223
1896	...	129	1818	226
1897	...	129	1850	186
1898	...	129	1891	259
Average.		*134*	*1491*	*212*
1899	...	218	1976	283
1900	...	160	1971	251
1901	...	160	1987	252
1902	...	160	2020	245
1903	...	166	2011	238
1904	...	166	2032	219
1905	...	166	2031	234
1906	...	168	2087	253
1907	...	168	2049	338
1908	...	172	2059	366
1909	...	173	2053	397
1910	...	173	2059	395
1911	...	176	2050	425
1912	...	178	2079	411
1913	...	181	2066	451
Average.		*172*	*2049*	*317*
1914	...	184	2075	360
1915	...	194	2055	234
1916	...	216	2016	250
1917	...	236	1976	179
1918	...	274	1936	135
1919	...	348	2062	375
1920	...	446*	2082	1007
Average.		*271*	*2029*	*391*

* Includes £ 138,000 for the High Commissioner's Office.

TABLE 25.

Showing the Loss or Gain by Exchange on English Charges in crores of Rs. (Ch. XI).

Year.	Average Price of silver in London per oz.	Rate assumed in the budget per rupee.	Average rate realised by the Secretary of State.	Charge for Exchange on Revenue. On net sterling expenditure.	On Remittance Transactions.	Additional payments to European soldiers.	Compensation to officers.	Total.
	d.	d.	d.					
1872 ...	$60\frac{5}{16}$	23·111	22·754	·7	...	...	...	·7
1873 ...	$59\frac{1}{4}$	22·566	22·351	·9	...	...	...	·9
1874 ...	$58\frac{5}{16}$	22·333	22·156	1·0	...	...	...	1 0
1875 ...	$56\frac{7}{8}$	21·875	21·626	1·4	·06	...	...	1·4
1876 ...	$52\frac{3}{4}$	20·5	20·508	2·3	·20	...	...	2·5
1877 ...	$54\frac{13}{16}$	21·227	20·791	2·1	·15	...	...	2·3
1878 ...	$52\frac{9}{16}$	20·4	19·794	2·9	·23	...	...	3·1
1879 ...	$51\frac{1}{4}$	18·995	19·961	2·8	·08	...	...	2 9
1880 ...	$52\frac{1}{4}$	20	19·956	2·3	...	...	...	2·3
1881 ...	$51\frac{11}{16}$	20	19·895	2·4	·09	...	...	2·5
1882 ...	$51\frac{5}{8}$	20	12 525	3 1	06	...	...	2·1
1883 ...	$50\frac{9}{16}$	19·5	19·536	3 4	—·06	·05	...	3 4
1884 ..	$50\frac{5}{8}$	19·5	19·308	3 4	—·01	·18	...	3·5
1885 ...	$48\frac{5}{8}$	19	18 251	4·3	—·26	·22	...	4·3
1886 ...	$45\frac{3}{8}$	18	17·441	5.3	—·03	·28	...	5·6
1887 ...	$44\frac{5}{8}$	17·5	16·898	6.4	—·74	·44	...	6·1
1888 ...	$42\frac{7}{8}$	16·9	16·379	6·8	—·95	·52	...	6·4
1889 ...	$42\frac{11}{16}$	16·38	16·566	6·5	—·39	·63	...	6·7
1890 ...	$47\frac{11}{16}$	16·552	18·089	4·9	—·08	·59	...	5·5
1891 ...	$45\frac{1}{16}$	17·25	16·733	6·8	—·03	·41	...	7·2
1892 ...	$39\frac{1}{16}$	16	14·985	9·7	—·02	·61	...	10·3
1893 ...	$35\frac{5}{16}$	14·75	14·547	10·2	—·11	·85	·62	11·5
1894 ...	$28\frac{15}{16}$	14	13·101	12 9	—·23	1·13	1·24	15·0
1895 ...	$29\frac{7}{8}$	13·09	13·638	11·7	—·18	1 16	1·33	14 0
1896 ...	$30\frac{3}{4}$	13·75	14·451	10·2	—·14	1·10	·94	12 1
1897 ...	$27\frac{9}{16}$	14·46	15·354	9·0	—·04	·91	·69	10 6
1898 ...	$26\frac{15}{16}$	15·38	15·978	8·0	—·05	·78	·48	9·3
Total ...	...	...	...	...	...	*9·85*	*5 29*	*154·2*

TABLE 26.

Showiug Land Revenue and cost of collection (Ch. XII).

Year.		Revenue.	Expenditure.	Net Revenue.	Portion of L. R. credited to Irrigation.	Real Net Land Revenue.
1861	...	... 19·5	2·0	17·4	...	...
1862	...	... 19·4	2·1	17·3	...	...
1863	...	... 19·9	2·	17·7	...	...
1864	...	... 19·7	2·2	17·4	...	...
1865	...	... 2[illegible]·0	2·2	17·7	...	...
1866	...	... 18·7	2·1	16·5	...	...
1867	...	... 19·9	2·3	17·5	...	...
1868	...	... 19·8	2·4	17·3	...	...
1869	...	... 21·0	2·4	18·6	...	...
1870	...	... 20·6	2·4	18·2	...	...
1871	...	... 20·5	2·4	18·2	...	...
1872	...	... 21·3	2·4	18·8	...	...
1873	...	... 21·0	2·4	18·5	...	...
1874	...	... 21·2	2·4	18·8	...	...
Average	...	*20·2*	*2·3*	*17·8*	...	...
1875	...	... 21·5	2·9	18·5	...	18·5
1876	...	... 19·8	2·8	16·9	...	16·9
1877	...	... 19·8	2·9	16·9	·1	17·1
1878	...	... 22·3	2·9	19·3	·1	19·4
1879	...	... 21·8	2·9	18·9	·6	19·5
1880	...	... 21·1	2·9	18·1	·7	18·9
1881	...	... 21·9	3·0	18·9	·4	19·4
1882	...	... 21·8	3·0	18·8	·4	19·3
1883	...	... 22·3	3·3	19·0	·5	19·5
1884	...	... 21·8	3·3	18·4	·4	18·9
1885	...	... 22·5	3·4	19·1	·5	19·7
1886	...	... 33·0	3·4	19·5	·5	20·1
1887	...	... 23·1	3·4	19·7	·6	20·3
1888	...	... 23·0	3·5	19·5	·6	20·1
1889	...	... 23·9	3·6	20·3	·6	21·0
1890	...	... 24·0	3·6	20·3	·7	21·0
1891	...	... 23·9	3·8	20·1	·6	20·8
1892	...	... 24·9	3·9	20·9	·7	21·6
1893	...	... 25·5	4·0	21·5	·7	22·8

Year.		Revenue.	Expenditure.	Net Revenue.	Portion of L. R. credited to Irrigation.	Real Net Land Revenue.
1894	... ...	25·4	4·0	21·3	·7	22·1
1895	... ...	26·2	4·0	22·1	·8	22·9
1896	... ...	23·9	4·1	19·8	·8	20·7
1897	... ...	25·6	4·1	21·4	·9	22·4
1898	... ...	27·4	4 0	23·4	1·0	24·4
Average	...	*23·1*	*3·4*	*19·7*	*·6*	*20·3*
1899	... ...	25·8	4·0	21·8	1 0	22·8
1900	... ...	26·2	4·2	22·0	1·1	23·3
1901	... ...	27·4	4·2	23·2	1·2	24·4
1902	... ...	27·6	4·3	23·3	1·2	24·5
1903	... ...	28·8	4·5	24·3	1·2	25·5
1904	... ...	28·3	4·8	23·5	1·3	24·8
1905	... ...	28·2	4·9	23·3	1·3	24·6
1906	... ...	29·7	4·9	24·8	1·5	26·3
1907	... ...	28·0	5·2	22·8	1·5	24·3
1908	... ...	29·5	5·4	24·1	1·6	25·7
1909	... ...	31·9	5·4	26·5	1·6	28·1
1910	... ...	31·2	5·4	25·8	1·7	27·5
1911	... ...	31·0	5·5	25·5	2·0	27·5
1912	... ...	31·9	5·7	26·2	2·2	28·4
1913	... ...	32·1	5·8	26·3	2·5	28·8
Average	...	*29·2*	*4·9*	*24·3*	*1·5*	*25·8*
1914	... ...	31·8	5·9	26·0	2·4	28·4
1915	... ...	33·0	5·9	27·2	2·7	29·9
1916	... ...	33·0	5·7	27·3	2·7	30·0
1917	... ...	32·4	5·7	26·9	2·6	29·5
1918	... ...	31·5	6·2	25·4	2·9	28·3
1919	... ...	33·9	6·4	26·5	2·9	30·4
1920	... ...	32·0	8·1	23·9	2·9	26·8
Average	...	*32·5*	*6·3*	*26·2*	*2·7*	*28·9*

TABLE 27.

Showing the revenue from Provincial Rates (Ch. XII).

Year.		Gross Revenue.	Net Revenue.
1875	...	1·9	1·8
1876	...	1·9	1·8
1877	...	2·5	2·4
1878	..	2·6	2·5
1879	...	2·8	2·8
1880	...	2·7	2·7
1881	...	2·8	2·8
1882	...	2·6	2·6
1883	...	2·8	2·8
1884	...	2·7	2·7
1885	...	2·9	2·9
1886	...	3·0	2·9
1887	...	3·0	2·9
1888	...	3·0	2·9
1889	...	3·4	3·3
1890	...	3·4	3·4
1891	...	3·5	3·4
1892	...	3·7	3·6
1893	...	3·5	3·4
1894	...	3·5	3·4
1895	...	3·7	3·6
1896	...	3·5	3·4
1897	...	3·7	3·6
1898	...	3·9	3·8
Average	...	*3·0*	*3·0*
1899	...	3·7	2·96
1900	...	3·7	3·66
1901	...	4·0	3·94
1902	...	4·0	3·94
1903	...	4·2	4·14
1904	...	4·2	4·16
1905	...	4·2	4·16
1906	...	·7	·69
1907	...	·7	·69
1908	...	·7	·69
1909	...	·7	·69
1910	...	·7	·69
1911	...	·7	·69
1912	...	·7	·69
1913	...	·2	·2
1914	...	·06	·06
1915	...	·06	·06
1916	...	·04	·04
1917	...	·03	·03
1918	...	·04	·04
1919	...	·04	·04
1920	...	·04	·04

TABLE 28.

Showing the revenue from Taxes on Income and the number of assessees (Ch. XIII).

Year.	Gross Revenue.	Net Revenue.	Number of Assessees.
1856	·1	......	......
1857	·1	......	......
1858	·1	......	......
1859	·2	......	......
1860	1·1	......	882,009
1861	2·0	1·8	1,055,351
1862	1·8	1·7	344,630
1863	1·4	1·4	237,599
1864	1·2	1·2	266,182
1865	·69	·66	......
1866	·02	·01	......
1867	·65	·58	742,889
1868	·5	·44	263,765
1869	1·1	1·0	580,062
1870	2·0	1·9	448,274
1871	·8	·7	......
1872	·58	·56	......
1873	·02	·016	......
1874	·003	·003	......
Average ...	*·91*	*·88*	
1875	·01	·01	......
1876	·01	·01	......
1877	·1	·1	......
1878	·9	·8	......
1879	·7	·7	......
1880	·5	·5	......

Year.			Gross Revenue.	Net Revenue.	Number of Assessees.
1881	...	...	·5	·5	228,447
1882	...	...	·5	·5	......
1883	...	...	·5	·5	......
1884	...	...	·5	·49	......
1885	...	...	·5	·49	......
1886	...	...	1·3	1·3	350,662
1887	...	...	1·4	1·4	393,687
1888	...	...	1·5	1·49	410,321
1889	...	...	1·59	1·56	416,699
1890	...	...	1·6	1·5	425,614
1891	...	...	1·6	1·6	435,539
1892	...	...	1·6	1·6	445,290
1893	...	...	1·7	1·7	456,027
1894	...	...	1·8	1·7	466,072
1895	...	...	1·8	1·8	476,917
1896	...	...	1·8	1·8	477,268
1897	...	...	1·8	1·8	480,884
1898	...	...	1·9	1·8	490,834
	Average	...	*1·12*	*1·09*	
1899	...	...	1·9	1·87	501,622
1900	...	...	1·9	1·87	498,686
1901	...	...	1·9	1·87	513,549
1902	...	...	2·1	2·07	530,800
1903	...	...	1·8	1·77	239,993
1904	...	...	1·8	1·77	243,172
1905	...	...	1·9	1·87	249,444
1906	...	...	2·1	2·07	255,762
1907	...	...	2·2	2·17	262,068
1908	...	...	2·2	2·17	267,619
1909	...	...	2·2	2·17	275,623

Year.			Gross Revenue.	Net Revenue.	Number of Assessees.
1910	...	...	2·4	2·37	277,822
1911	...	...	2·4	1·36	288,988
1912	...	...	2·5	2·47	303,690
1913	...	...	2·8	2·76	322,393
	Average	...	*2·2*	*2·1*	
1914	...	...	3·05	3·01	338,954
1915	...	...	3·13	3·09	342,541
1916	...	...	5·66	5·62	357,021
1917	...	...	9·5	8·35	382,532
1918	...	...	11·6	11·4	366,431
1919	...	...	23·2	22·28	185,791
1920	...	...	22·2	20·71	......
	Average	...	*11·33*	*10·78*	
1921	...	...	25·1	18·48	......
1922	...	...	18·0	......	......
1923	...	...	19·1	......	......
1924	...	...	18·2	......	......

In recent years the following items in addition to the Cost of Collection have been deducted from the Gross revenue to arrive at the Net revenue as shown :—

Year.			Refunds.	Provincial Share.	Cost of collection.
1917	...	...	·09	......	·06
1918	...	...	·13	......	·07
1919	...	...	·77	......	·15
1920	...	...	1·37	......	·22
1921	...	...	2·9	3·4	·22

Revenue from different kinds of Taxes on Income in recent years in crores of Rs.

Year.			Income Tax.	Super Tax.	Excess Profits Duty.
1916	...	...	5·6	......	......
1917	...	...	7·2	2·2	......
1918	...	...	8·4	3·2	......
1919	...	...	11·3	2·6	9·2
1920	...	...	13·9	6·3	1·8
1921	...	...	16·0	8·7	·26

TABLE 29.

Showing revenue from Taxes on Income in the Main Provinces in lakhs of Rs. (Ch. XIII).

Year.	Burma.	Assam.	Bengal	U. P.	Punjab.	Bombay.	C. P.	Madras.	N. W. P.	Bihar and Orissa.
1886 ...	...	1·9	38·1	21·8	9·2	30·0	3·0	13·7	...	...
1887 ...	...	2·1	35·6	21·3	9·6	33·1	3·0	15·0	...	...
1888 ...	4·6	2·1	37·4	21·5	10·4	33·5	3·4	14·7	...	...
1889 ...	5·4	2·2	39·0	21·9	11·1	34·6	3·7	16·2	...	...
1890 ...	5·9	2·1	39·7	22·3	11·7	34·4	3·7	15·9	...	...
1891 ...	6·6	2·2	40·4	22·1	11·9	35·4	3·6	17·0	...	...
1892 ...	6·9	2·3	40·6	22·5	12·1	37·2	4·0	18·1	...	...
1893 ...	7·6	2·6	42·0	23·2	12·5	36·5	3·9	20·3	...	...
1894 ...	7·7	2·7	44·0	23·8	12·8	38·4	3·9	21·6	...	...
1895 ...	7·4	3·0	45·2	24·1	13·0	39·4	3·9	22·1	...	...
1896 ...	7·8	3·0	47·6	24·1	13·2	38·8	4·0	24·0	...	...
1897 ...	9·4	3·0	48·1	24·1	13·9	38·2	3·1	24·1	...	...
1898 ...	10·1	3·2	49·4	24·0	13·7	38·5	3·9	25·5	...	...
1899 ...	10·5	3	50	24·5	13·8	38	3·5	26	...	...
1900 ...	11	3	51	25	14	38	3	27	...	...
1901 ...	12	3	56	25	14	37	3	29	1	...
1902 ...	12	3	58	25	14	39	3	29	1	...
1903 ...	12	3	49	20	11	36	2	23	1	...
1904 ...	13	2	49	20	12	36	6	25	1	...
1905 ...	15	9	46	21	12	38	5	25	1	...
1906 ...	15	10	48	21	13	46	5	27	1	...
1907 ...	17	11	51	21	13	48	5	29	1	...
1908 ...	17	11	56	22	14	47	5	29	1	...
1909 ...	18	12	55	22	14	46	5	30	1	...
1910 ...	18	12	53	23	14	50	6	30	1	...
1911 ...	19	3	53	24	16	53	6	31	1	11
1912 ...	19	3	55	24	17	57	7	34	1	13
1913 ...	22	4	66	26	18	66	8	36	2	13
1914 ...	24	4	70	27	19	72	9	39	2	14
1915 ...	24	4	70	27	19	72	9	40	2	14
1916 ...	40	7	169	42	25	141	13	60	3	20
1917 ...	49	9	340	53	36	278	16	81	3	24
1918 ...	79	9	351	72	40	390	19	105	4	28
1919 ...	139	8	951	106	56	727	56	162	4	36
1920 ...	164	11	840	96	66	679	35	196	5	36

TABLE 30.

Showing the number of assessees and revenue from Income Tax according to classes of income in lakhs of Rs.

(Ch. XIII).

Year.	Class I. Rs. 500 to Rs. 750.		Class II. Rs. 750 to Rs. 1,000.		Class III. Rs. 1,000 to Rs. 1,250.	
	No.	Rs.	No.	Rs.	No.	Rs.
1886 ...	185,795	20	45,585	8	30,966	7
1887 ...	213,365	21	54,174	8	35,784	7
1888 ...	207,841	21	59,173	9	38,703	8
1889 ...	207,445	21	61,364	9	40,808	8
1890 ...	209,860	21	64,399	10	42,411	9
1891 ...	211,971	22	67,038	10	44,429	9
1892 ...	213,886	21	69,693	11	46,145	9
1893 ...	214,808	22	72,024	11	47,192	10
1894 ...	219,295	22	74,565	11	49;033	10
1895 ...	223,349	23	76,441	12	50,474	10
1896 ...	220,716	22	77,297	12	50,917	10
1897 ...	I17,822	22	78,336	12	51,790	11
1898 ...	223,604	22	79,550	12	53,026	11
1899 ...	...	...	...	...	54,052	11
1900 ...	...	...	...	...	53,586	11
1901 ...	...	...	...	...	56,216	11
1902 ...	...	...	...	...	58,323	12
1903 ...	...	...	...	...	86,736	16
1904 ...	...	...	...	...	88,115	17
1905 ...	...	...	...	...	89,450	17
1906 ...	...	...	...	...	90,859	17
1907 ...	...	...	...	...	91,301	17
1908 ...	...	...	...	...	92,039	17
1909 ...	...	...	...	...	94,415	18
1910 ...	...	...	...	...	95,730	18
1911 ...	...	...	...	...	98,716	19
1912 ...	...	...	...	...	104,501	20
1913 ...	...	...	...	...	110,089	21
1914 ...	...	...	...	...	...	...
1915 ...	...	...	...	...	...	...
1916 ...	...	...	...	...	...	...
1917 ...	...	...	...	...	...	...
1918 ...	...	...	...	...	...	...

Year.	Class IV. Rs. 1,250 to Rs. 1,500		Class V. Rs. 1,500 to Rs. 1,750.		Class VI. Rs. 1,750 to Rs. 2,000.	
	No.	Rs.	No.	Rs.	No.	Rs.
1886 ...	20,352	6	12,281	4	9,007	4
1887 ...	21,362	6	13,817	5	11,211	4
1888 ...	21,390	6	14,452	5	12,469	5
1889 ...	21,734	6	15,111	5	12,862	5
1890 ...	22,004	6	15,058	5	13,478	5
1891 ...	22,436	6	15,482	5	14,009	6
1892 ...	23,501	7	15,828	5	14,734	6
1893 ...	24,179	7	16,364	6	14,779	6
1824 ...	24,792	7	16,894	6	15,291	6
1895 ...	25,132	7	17,617	6	15,789	6
1896 ...	25,336	7	20,067	6	15,900	6
1897 ...	26,336	7	18,397	6	16,781	7
1898 ...	26,970	7	18,764	6	17,291	7
1899 ...	27,524	7	19,136	6	18,317	7
1900 ...	27,471	7	19,206	6	18,014	7
1901 ...	28,446	8	20,451	7	18,687	8
1902 ...	29,745	8	21,380	7	19,211	8
1903 ...	29,378	8	21,090	7	18,967	8
1904 ...	30,945	8	22,290	7	19,638	8
1905 ...	31,608	8	23,037	8	20,252	8
1906 ...	32,524	9	23,526	8	20,794	8
1907 ...	33,616	9	23,987	8	21,178	8
1908 ...	34,811	10	24,828	8	21,694	9
1900 ...	36,180	10	25,664	9	22,059	9
1910 ...	37,052	10	26,001	9	22,109	9
1911 ...	38,290	11	27,224	9	23,130	9
1912 ...	39,396	11	28,195	10	23,952	10
1913 ...	42,311	12	30,438	10	25,891	10
					(Rs. 1,000 to Rs. 2,000)	
1914 ...	...	...	...	...	218,779	58
1915 ...	...	...	...	...	220,793	59
1916 ...	...	...	...	...	225,695	62
1917 ...	...	...	...	...	237,179	65
1918 ...	...	...	...	...	191,246	50

Year.	Class VII. Rs. 2,000 to Rs. 2,500. No.	Rs. (Crores)	Class VIII. Rs. 2,500 to Rs. 5,000. No.	Rs. (Crores).	Class IX. Rs. 5,000 to Rs. 10,000. No.	Rs. (Crores).
1886 ...	12,035	7	20,020	19	7,843	17
1887 ...	13,789	7	22,153	19	10,276	16
1888 ...	14,551	8	23,336	20	10,448	17
1889 ...	14,961	8	23,877	20	10,554	18
1890 ...	15,435	8	23,808	20	10,897	18
1891 ...	15,923	8	24,746	21	11,098	18
1892 ...	16,118	9	25,377	22	11,410	19
1893 ...	16,495	9	25,626	22	11,744	20
1894 ...	16,536	9	26,492	23	11,828	20
1895 ...	17,407	9	27,229	23	12,413	21
1896 ...	17,880	10	27,709	24	12,556	21
1897 ...	18,634	10	28,648	24	13,298	22
1898 ...	18,659	10	28,890	25	13,309	22
1899 ...	19,319	10	29,878	25	13,683	23
1900 ...	19,216	10	29,869	26	13,542	24
1901 ...	19,244	11	30,869	27	14,076	25
1902 ...	21,093	12	31,653	28	14,317	25
1903 ...	19,625	11	32,603	29	14,616	26
1904 ...	21,143	11	34,542	30	15,825	26
1905 ...	22,139	12	35,522	31	16,241	27
1906 ...	22,836	12	37,374	32	16,876	28
1907 ...	23,970	13	38,586	34	17,388	30
1908 ...	24,568	14	39,145	35	17,885	31
1909 ...	25,358	14	40,918	36	18,816	33
1910 ...	25,196	14	40,144	36	19,217	33
1911 ...	26,144	15	42,086	38	20,441	35
1912 ...	27,154	15	45,452	41	21,581	38
1913 ...	28,283	16	48,120	42	22,922	40
1914 ...	30,367	17	50,690	45	24,045	42
1915 ...	30,821	18	51,575	47	24,308	43
1916 ...	84,764	67	(figures for Rs. 2,000 to Rs. 5,000).		28,273	57
1917 ...	93,576	71			31,460	66
1918 ...	46,522	24	65,848	57	38,753	75

Year.	Class X. Rs. 10,000 to Rs. 20,000. No.	Rs. (Crores).	Class XI. Rs. 20,000 to Rs. 30,000. No.	Rs. (Crores).	Class XII. Rs. 30,000 to Rs. 40,000. No.	Rs. (Crores).
1886 ...	3,096	13	936	6	435	2
1887 ...	4,313	13	1,047	5	388	3
1888 ...	4,392	14	1,051	6	433	3
1889 ...	4,405	14	1,151	7	416	3
1890 ...	4,403	14	1,112	6	418	3
1891 ...	4,485	14	1,117	7	461	4
1892 ...	4,495	15	1,082	8	483	4
1893 ...	4,798	16	1,170	7	477	4
1894 ...	5,332	17	1,331	7	588	5
1895 ...	5,430	17	1,382	8	604	5
1896 ...	5,439	17	1,313	7	558	4
1897 ...	5,569	17	1,417	8	543	4
1898 ...	5,507	17	1,343	8	528	4
1899 ...	5,501	17	1,350	8	511	4
1900 ...	5,518	18	1,357	8	558	5
1901 ...	5,829	20	1,400	8	561	4
1902 ...	5,940	20	1,398	8	539	4
1903 ...	6,259	21	1,441	9	557	5
1904 ...	6,286	21	1,577	9	574	4
1905 ...	6,639	22	1,673	9	600	5
1906 ...	6,815	23	1,678	9	643	5
1907 ...	7,141	24	1,790	10	660	5
1908 ...	7,518	24	1,927	10	730	6
1909 ...	7,380	25	1,738	10	687	6
1910 ...	7,410	25	1,779	10	706	5
1911 ...	7,879	27	1,816	10	734	6
1912 ...	8,192	28	1,880	11	741	6
1913 ...	8,648	30	1,969	12	828	7
1914 ...	9,160	32	2,274	13	769	7
1915 ...	8,986	32	2,273	14	821	7
1916 ...	9,643	62	2,702	32	830	17
1917 ...	12,437	73	3,151	39	1,043	23
1918 ...	14,577	89	4,369	53	1,447	30

Year.	Class XIII. Rs. 40,000 to Rs. 50,000. No.	Rs. (Crores).	Class XIV. Rs. 50,000 to Rs. 1,00,000. No.	Rs. (Crores).	Class XV. Rs. 1,00,000 and more No.	Rs. (Crores).
1886 ...	204	2	262	4	105	9
1887 ...	194	2	263	4	144	9
1888 ...	184	2	287	5	173	11
1889 ...	195	2	314	5	186	12
1890 ...	215	2	326	6	194	12
1891 ...	222	2	332	6	189	12
1892 ...	242	3	313	5	188	13
1893 ...	227	2	312	5	149	9
1894 ...	252	3	346	6	186	13
1895 ...	264	3	349	6	204	14
1896 ...	278	3	379	6	242	17
1897 ...	275	3	369	6	242	15
1898 ...	266	3	340	6	233	16
1899 ...	257	3	339	6	232	16
1900 ...	280	3	364	7	228	16
1901 ...	267	3	366	6	231	19
1902 ...	272	3	366	6	239	19
1903 ...	286	3	389	7	247	18
1904 ...	289	3	435	7	262	20
1905 ...	309	3	390	6	299	23
1906 ...	299	3	467	8	387	31
1907 ...	337	3	501	9	404	34
1908 ...	352	4	487	8	423	36
1909 ...	322	3	462	8	360	32
1910 ...	352	4	500	9	363	29
1911 ...	367	4	515	9	355	29
1912 ...	402	4	563	10	365	30
1913 ...	411	4	616	11	487	47
1914 ...	427	5	607	11	500	53
1915 ...	432	5	634	12	474	53
1916 ...	470	13	663	30	596	81
1917 ...	594	17	839	38	810	98
1918 ...	780	20	1,290	52	1,341	126

TABLE 31.

Showing Customs revenue in crores of Rs.
(Ch. XIV).

Year.		Gross Revenue.	Net Revenue.
1861	...	2·8	2·5
1862	...	2·4	2·2
1863	...	2·3	2·1
1864	...	2·2	1·9
1865	...	2·2	1·9
1866	...	2·0	1·7
1867	...	2·5	2·3
1868	...	2·6	2·4
1869	...	2·4	2·1
1870	...	2·6	2·3
1871	...	2·5	2·3
1872	...	2·6	2·4
1873	...	2·6	2·3
1874	...	2·6	2·4
Average	...	*2·4*	*2·2*
1875	...	2·7	2·5
1876	...	2·4	2·2
1877	...	2·6	2·4
1878	...	2·3	2.1
1879	...	2·2	2·0
1880	...	2·5	2·3
1881	...	2·3	2·1
1882	...	1·2	1·1
1883	...	1·1	1·0
1884	...	1·0	0·8
1885	...	1·2	1·0
1886	...	1·2	1·1
1887	...	1·3	1·2
1888	...	1·3	1·1
1889	...	1·5	1·3
1890	...	1·7	1·6
1891	...	1·7	1·5
1892	...	1·6	1·4
1893	...	1·6	1·5
1894	...	3·8	3·6
1895	...	5·0	4·8
1896	...	4·4	4·2
1897	...	4·6	4·4
1898	...	4·8	4·5
Average	...	*2·3*	*2·2*
1899	...	4·6	4·5
1900	...	4·9	4·7
1901	...	5·7	5·5
1902	...	5·8	5·6
1903	...	5·9	5·7
1904	...	6·4	6·2
1905	...	6·4	6·2
1906	...	6·4	6·1
1907	...	7·5	7·2
1908	...	7·2	6·9
1909	...	7·3	7·0
1910	...	9·9	9·6
1911	...	9·6	9·3
1912	...	10·6	10·3
1913	...	11·2	10·8
Average	...	*7.3*	*7·0*
1914	...	9·4	9·1
1915	...	8·9	8·6
1916	...	12·9	12·6
1917	...	16·5	16·1
1918	...	18·1	17·7
1919	...	22·5	22·1
1920	...	31·9	31·4
Average	...	*17·2*	*16·8*
1921	...	34·4	33·8
1922	...	41·3	40·6
1923	...	40·4	39·7
1924	...	45·0	44·2

TABLE 32.

Showing Salt Revenue in crores of Rs. and the amount of Salt consumed in millions of maunds. (Ch. XV).

Year.			Revenue.	Net Revenue.	Quantity of Salt consumed.
1856	...	...	2·6	......	22·7
1857	...	...	2·1	......	20·2
1858	...	...	2·6	......	23·8
1859	...	...	2·9	......	23·7
1860	...	...	3·8	......	26·1
1861	...	...	4·5	3·8	21·7
1862	...	...	5·2	4·6	23·9
1863	...	...	5·0	4·6	23·4
1864	...	...	5·5	5·1	25·3
1865	...	...	5·3	4·9	25·5
1866	...	...	5·3	5·0	23·6
1867	...	...	5·7	5·3	24·5
1868	...	...	5·5	5·1	22·7
1869	...	...	5·3	5·4	22·6
1870	...	...	6·1	5·6	23·0
1871	...	...	5·9	5·4	22·7
1872	...	...	[illegible]·1	5·6	23·6
1873	...	...	6·1	5·6	23·5
1874	...	...	6·2	5·7	23·9
Average	...	...	*5·5*	*5·1*	......
1875	...	...	6·2	5·7	24·2
1876	...	...	6·3	5·8	24·4
1877	...	...	6·4	5·9	24·7
1878	...	...	6·9	6·5	25·4
1879	...	...	7·2	6·9	27·8
1880	...	...	7·1	6·7	27·3
1881	...	...	7·3	6·8	28·3
1882	...	...	6·1	5·7	29·7
1883	...	...	6·1	5·6	30·6
1884	...	...	6·5	6·0	33·0
1885	...	...	6·3	5·9	31·6
1886	...	...	6·6	6·1	33·7
1887	...	...	6·6	6 2	33·0
1838	...	...	7·6	7·2	31·3
1889	...	...	8·1	7·7	33·0
1890	...	...	8·5	8·0	33·2
1891	...	...	8·6	8·1	34·4

Year.			Revenue.	Net Revenue.	Quantity of Salt consumed
1892	...	...	8·6	8·1	35·0
1893	...	...	8·2	7·7	33·6
1894	...	...	8·6	8·1	34·1
1895	...	...	8·8	8·3	34·6
1896	...	...	8·4	7·8	34·0
1897	...	...	8·5	8·1	34·5
1898	...	...	9·1	8·6	35·2
Average	...	...	*7·4*	*7·0*	......
1899	...	...	8·7	8·3	35·6
1900	...	...	8·8	8·4	36·4
1901	...	...	8·8	8·4	36·1
1902	...	...	9·1	8·7	37·2
1903	...	...	7·8	7·4	38·2
1904	...	...	7·9	7·5	39·7
1905	...	...	6·4	6·0	39·1
1906	...	...	6·4	6·0	41·1
1907	...	...	4·9	4·5	42·7
1908	...	...	4·8	4·4	43·6
1909	...	...	4·9	4·5	43·8
1910	...	...	4·6	4·2	41·1
1911	...	...	5·1	4·7	48·4
1912	...	...	4·9	4·5	48·6
1913	...	...	5·1	4·7	49·6
Average	...	...	*6·6*	*6·2*	......
1914	...	...	5·9	5·4	52·2
1915	...	...	5·4	4·9	48·4
1916	...	...	7·2	6·6	54·4
1917	...	...	8·3	7·7	44·1
1918	...	...	6·3	5·5	51·2
1919	...	...	5·8	4·9	49·8
1920	...	...	6·8	5·8	46·7
Average	...	...	*6·5*	*5·8*	......
1921	...	...	6·3	4·8	47·8
1922	...	...	6·8	5·3	......
1923	...	...	8·7	7·3	......
1924	...	...	9·0	7·6	......

TABLE 33.

Showing the Rates of Salt Duty per maund in different provinces in Rupees and Annas. (Ch. XV).

Year.		Bengal customs duty.	Madras duty.	Bombay duty.	Punjab mines duty.	Inland Customs duty.	Central India salt sources duty.	Burma duty.
		Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.	Rs. as.
1856	...	2 8	0 14	0 12	2 0	2 0	......	......
1859	...	3 0	1 0	1 0	2 2	2 8	......	......
1860	...	3 4	1 4	1 4	......	3 0	......	......
1861	..	3 4	1 6	1 4	3 0	3 0	......	......
1864	...	3 4	1 6	1 8	......	3 0	......	......
1865	...	3 4	1 9	1 8	......	3 0	......	......
1869	...	3 4	1 13	1 13	......	3 0	......	......
1878	...	2 14	2 8	2 8	2 8	Abolished	2 8	0 3
1882	...	2 0	2 0	2 0	2 0	......	2 0	0 3
1888	...	2 8	2 8	2 8	2 8	......	2 8	1 0
1903	...	2 0	2 0	2 0	2 0	......	2 0	1 0
1905	...	1 8	1 8	1 8	1 8	......	1 8	1 0
1907	...	1 0	1 0	1 0	1 0	......	1 0	1 0
1916	...	1 4	1 4	1 4	1 4	......	1 4	1 4
1923	...	2 8	2 8	2 8	2 8	......	2 8	2 8
1924	...	1 4	1 4	1 4	1 4	......	1 4	1 4

TABLE 34.

Showiug Excise Revenue in crores of Rs.
(Ch. XV).

Year.	Gross Revenue.	Net Revenue.
1861	1·6	1·5
1862	1·7	1·7
1863	1·8	1·6
1864	2·0	1·7
1865	2·0	1·7
1866	1·8	1·6
1867	2·2	1·9
1868	2·2	1·9
1869	2·2	1·9
1870	2·3	2·0
1871	2·3	2·2
1872	2·3	2·1
1873	2·2	2·1
1874	2·3	2·2
Average	*2·1*	*1·9*
1875	2 4	2·4
1876	2·5	2·4
1877	2·4	2·3
1878	2·6	2·5
1879	2·8	2·7
1880	3·1	3·0
1881	3·4	3 3
1882	3·6	3·5
1883	3·8	3·7
1884	4·0	3·9
1885	4·1	4·0
1886	4·3	4·2
1887	4·5	4·4
1888	4·7	4·5
1889	4·8	4·7
1890	4·9	4·7
1891	5·1	4·9
1892	5·2	5·0
1893	5·3	5·1
1894	5·5	5·3
1895	5·7	5·5
1896	5·6	5·4
1897	5·4	5·2
1898	5·7	5·5
Average	*4·2*	*4·1*
1899	5·7	5·6
1900	5·8	5·6
1901	6·0	5·8
1902	6·6	6·4
1903	7·4	7·1
1904	7·9	7·6
1905	8·4	8·1
1906	8·8	8·4
1907	9·3	8·9
1908	9·4	8·9
1909	9·7	9·2
1910	10·5	9·9
1911	11·4	10·8
1912	12·3	11·7
1913	13·3	12·7
Average	*8·9*	*8·5*
1914	13·2	12·6
1915	12·9	12·3
1916	13·8	13·2
1917	15·1	14·2
1918	17·2	16·5
1919	19·2	18·3
1920	20·4	19·2
Average	*16·0*	*15·2*

TABLE 35.

Showing Revenue from Stamps in crores of Rs.
(Ch. XV).

Year.		Gross Revenue.	Net Revenue.
1861	...	1·6	1·5
1862	...	1·4	1·3
1863	...	1·6	1·4
1864	...	1·9	1·7
1865	...	1·9	1·8
1866	...	1·7	1·6
1867	...	2·1	2·0
1868	...	2·3	2·1
1869	...	2·3	2·2
1870	...	2·5	2·3
1871	...	2·4	2·3
1872	...	2·6	2·4
1873	...	2·7	2·5
1874	...	2·7	2 5
Average	...	*2·1*	*2·0*
1875	...	2·8	2·7
1876	...	2·8	2·7
1877	...	2·9	2·8
1878	...	3·1	2·9
1879	...	3·1	3·0
1880	...	3·2	3·1
1881	...	3·3	3·2
1882	...	3·3	3·2
1883	...	3·5	3·3
1884	...	3·6	3·4
1885	...	3·6	3·5
1886	...	3·7	3·6
1887	...	3·8	3·7
1888	...	3·9	3·7
1889	...	4·0	3·9
1890	...	4·0	3·9
1891	...	4·2	4·1
1892	...	4·4	4·3
1893	...	4·5	4·3
1894	...	4 6	4·4
1895	...	4·7	4·5
1896	...	4·7	4·6
1897	...	4·8	4·6
1898	...	4·7	4·6
Average	...	*3·8*	*3·7*
1899	...	4·8	4·7
1900	...	4·9	4·8
1901	...	5·1	5·0
1902	...	5·1	5·0
1903	...	5·4	5·3
1904	...	5·5	5·4
1905	...	5 8	5·7
1906	...	6·0	5·7
1907	...	6·3	6 2
1908	...	6.4	6·3
1909	...	6·7	6·6
1910	...	7·2	7·1
1911	...	7·2	7·1
1912	...	7·5	7·4
1913	...	7·9	7·8
Average	...	*7·2*	*5·9*
1914	...	7·6	7·5
1915	...	8·1	7·9
1916	...	8·5	8·4
1917	...	8·5	8·4
1918	...	9·0	8·7
1919	...	10·9	10·6
1920	...	10·9	10·4
Average	...	*9·0*	*8 8*

TABLE 36.

Showing Registration Revenue in lakhs of Rs.
(Ch. XV).

Year.	Gross Revenue.	Expenditure.	Net Revenue.	Year.	Gross Revenue.	Expenditure.	Net Revenue.
1875 ...	19	14	5	1899 ...	30	15	15
1876 ...	20	14	6	1900 ...	45	25	20
1877 ...	23	15	8	1901 ...	45	25	20
1878 ...	27	16	10	1902 ...	45	25	20
1879 ...	27	16	10	1903 ...	45	27	18
1880 ...	28	17	11	1904 ...	54	27	27
1881 ...	28	18	11	1905 ...	54	27	27
1882 ...	29	18	10	1906 ...	55	28	27
1883 ...	26	17	9	1907 ...	61	31	30
1884 ...	29	18	11	1908 ...	64	34	30
1885 ...	31	18	12	1909 ...	64	34	30
1886 ...	30	18	11	1910 ...	63	36	27
1887 ...	31	19	12	1911 ...	66	36	30
1888 ...	33	19	14	1912 ...	72	36	36
1889 ...	35	19	16	1913 ...	76	37	39
1890 ...	36	20	17	*Average*	*55*	*31*	*24*
1891 ...	40	21	19				
1892 ...	43	21	22	1914 ...	75	30	45
1893 ...	42	22	19	1915 ...	75	30	45
1894 ...	42	23	19	1916 ...	75	30	45
1895 ...	42	23	19	1917 ...	75	30	45
1896 ...	46	24	22	1918 ...	75	45	30
1897 ...	49	25	24	1919 ...	109	49	60
1898 ...	44	25	19	1920 ...	112	59	53
Average	*33*	*19*	*14*	*Average*	*85*	*39*	*46*

TABLE 37.

Showing Opium Revenue and Expenditure in crores of Rs. (Ch. XVI).

Year.		Gross Revenue.	Expenditure.	Net Revenue.
1861	...	6·3	1·4	4·9
1862	...	8·0	1·8	6·1
1863	...	6·8	2·2	4·5
1864	...	7·3	2·3	4·9
1865	...	8·5	1·8	6·6
1866	...	6·8	1·0	5·7
1867	...	8·9	1·8	7 0
1868	...	8·4	1·7	6·7
1869	...	7·9	1·8	6·1
1870	...	8·0	2·0	6·0
1871	...	9·2	1·5	7·6
1872	...	8·6	1·8	6·8
1873	...	8·3	2·0	6·3
1874	...	8·5	2·3	6·2
Average	...	*8 0*	*1·8*	*6 1*
1875	...	8·4	2·2	6·2
1876	...	9 1	2·8	6 2
1877	...	9·1	2·6	6 5
1878	...	9·3	1·6	7·7
1879	...	10·3	2 0	8·2
1880	...	10·4	2·0	8 4
188.	...	9 8	2·0	7 8
1882	...	9·4	2·2	7·2
1883	...	9·5	1·8	7·7
1884	...	8·8	2·9	5·8
1885	...	8 9	3·0	5·8
1886	...	8·9	2 7	6·2
1887	...	8·5	2·4	6·0
1888	...	8·5	2·5	5·9
1889	...	8·5	2 6	6·9
1890	...	7·8	2·1	5·6
1891	...	8·0	1·8	6·1
1892	...	7·9	1·6	6·3
1893	...	6·6	1·6	4·7
1894	...	7·3	1·8	5·7
1895	...	7·1	2·0	5·0
1896	...	6·4	2·4	3·9
1897	...	5·1	2·3	2·7
1898	...	5·7	2·3	3·3
Average	...	*8·3*	*2·2*	*6·1*
1899	...	6·6	2·2	4 4
1900	...	7·6	2·2	5·4
1901	...	7·2	2·4	4 8
1902	...	6·7	2·4	4·3
1903	...	8·5	3·3	5·2
1904	...	9·0	2·8	6 2
1905	...	8·1	2·8	5·3
1906	...	8·4	2·8	5·6
1907	...	7·8	2·4	5·4
1908	...	8·8	1·8	7·0
1909	...	8·2	1·6	6·6
1910	...	11·2	1·8	9·4
1911	...	8·8	1·0	7·8
1912	...	7·6	·9	6·7
1913	...	2·4	1·5	0·9
Average	...	*7·9*	*2·4*	*5·5*
1914	...	2·4	·9	1·5
1915	...	2·9	1·7	1·2
1916	...	4·7	1·4	3·3
1917	...	4·5	1·7	2·9
1918	...	5·0	2·0	3·0
1919	...	4·6	1·3	3·3
1920	...	3·5	1·2	2·3
Average	...	*3·9*	*1·4*	*2·5*
1921	...	3·1	1·8	1·3
1922	...	3·8	1·8	2·0
1923	...	4·3	2·6	1·7
1924	...	4·3	2·1	2·2

TABLE 38.

Showing Excise Opium Revenue in lakhs of Rs.
(Ch. XVI.)

Year.	Excise Opium Revenue.	Year.	Excise Opium Revenue.
1856 ...	13·9	1888 ...	94·8
1857 ...	16·5	1889 ...	97·5
1858 ...	18·2	1890 ...	99·3
1859 ...	21·4	1891 ...	99·9
1860 ...	24·5	1892 ...	101·6
1861 ...	29·5	1893 ...	99·1
1862 ...	31·2	1894 ...	98·4
1863 ...	36·8	1895 ...	100·9
1864 ...	41·6	1896 ...	99·4
1865 ...	44·3	1897 ...	88·1
1866 ...	44·1	1898 ...	100·0
1867 ...	50·9	1899 ...	101·8
1868 ...	53·6	1900 ...	103·2
1869 ...	52·0	1901 ...	101·6
1870 ...	55·6	1902 ...	108·2
1871 ...	43·6	1903 ...	126·8
1872 ...	43·4	1904 ...	129·9
1873 ...	43·2	1905 ...	136·5
1874 ...	48·9	1906 ...	139·9
1875 ...	44·8	1907 ...	147·0
1876 ...	48·3	1908 ...	148·5
1877 ...	50·9	1909 ...	148·7
1878 ...	58·6	1910 ...	155 6
1879 ...	66·5	1911 ...	157·5
1880 ...	75·1	1912 ...	178·2
1881 ...	81·4	1913 ...	193·7
1882 ...	81·3	1914 ...	195·0
1883 ...	85 8	1915 ...	205 5
1884 ...	85·6	1916 ...	211·5
1885 ...	87·0	1917 ...	228·1
1886 ...	89·0	1918 ...	242·3
1887 ...	90·8		

TABLE 39.

Showing Forest Revenue in crores of Rs. (Ch. XVI).

Year.	Gross Revenue.	Expenditure.	Net Revenue.
1861 ...	·25	·09	·16
1862 ...	·24	·09	·16
1863 ...	·30	·14	·16
1864 ...	·35	·19	·15
1865 ...	·37	·21	·15
1856 ...	·31	·21	·09
1867 ...	·33	·23	·10
1868 ...	·41	·26	·14
1869 ...	·47	·31	·15
1870 ...	·45	·37	·07
1871 ...	·50	·35	·14
1872 ...	·57	·39	·16
1873 ...	·62	·39	·23
1874 ...	·58	·42	·16
Average...	*·41*	*·26*	*·15*
1875 ...	·70	·42	·28
1876 ...	·62	46	·16
1877 ...	·68	·44	·14
1878 ...	61	·46	·15
1879 ...	·68	·47	·21
1880 ...	·71	·47	·24
1881 ...	·88	·56	32
1882 ...	·94	·57	·37
1883 ...	1 05	·65	·40
1884 ...	·99	·68	30
1885 ...	1·09	·68	·40
1886 ...	1·10	·72	·38
1887 ...	1·12	·72	·40
1888 ...	1·35	·79	·56
1889 ...	1·49	·78	·70
1890 ...	1·45	·78	·66
1891 ...	1·49	·84	·65

Year.	Gross Revenue.	Expenditure.	Net Revenue.
1892 ...	1·59	·86	·73
1893 ...	1·72	·90	·82
1894 ...	1·53	·91	·72
1895 ...	1·66	·91	·75
1896 ...	1·73	·99	·74
1897 ...	1·74	1·00	·74
1898 ...	1·86	·99	·87
Average...	*1·20*	*·71*	*·49*
1899 ...	1·8	1·0	1·7
1900 ...	1·9	1·0	·9
1901 ...	1·7	1·0	·7
1902 ...	1·9	1·1	·8
1903 ...	2·2	1·2	1·0
1904 ...	2·4	1·2	1·2
1905 ...	2·5	1·3	1·2
1906 ...	2·5	1·3	1·2
1907 ...	2·5	1·4	1·1
1908 ...	2·5	1·4	1·1
1909 ...	2·5	1·5	1·0
1910 ...	2·7	1·5	1·2
1911 ...	2·8	1·6	1·2
1912 ...	3·1	1·6	1·5
1913 ...	3·3	1·7	1·6
Average...	*2·4*	*1·3*	*1·0*
1914 ...	3·0	1·8	1·2
1915 ...	3·0	1·8	1·2
1916 ...	3 6	1·8	1·8
1917 ...	4·0	2·1	1·9
1918 ...	4·6	2·8	1·8
1919 ...	5·3	3·2	2·1
1920 ...	5·4	3·7	1·7
Average...	*4·1*	*2·4*	*1·68*

TABLE 40.

Showing Tributes from Native States in lakhs of Rs.
(Ch. XVI).

Year.		Revenue.	Year.		Revenue.
1861	...	78	1894	...	78
1862	...	73	1895	...	79
1863	...	72	1896	...	90
1864	...	68	1897	...	88
1865	...	71	1898	...	91
1866	...	63	*Average*	...	*75*
1867	...	69	1899	...	90
1868	...	69	1900	...	85
1879	...	76	1901	...	87
1870	...	72	1902	...	90
1871	...	74	1903	...	90
1872	...	74	1904	...	90
1873	...	77	1905	...	90
1874	...	72	1906	...	90
Average	...	*72*	1907	...	87
1875	...	73	1908	...	88
1876	...	69	1909	...	88
1877	...	67	1910	...	90
1878	...	70	1911	...	90
1879	...	70	1912	...	90
1880	...	74	1913	...	90
1881	...	71	*Average*	...	*89*
1882	...	69	1914	...	90
1883	...	72	1915	...	90
1884	...	70	1916	...	90
1885	...	69	1917	...	90
1886	...	69	1918	...	90
1887	...	74	1919	...	93
1888	...	74	1820	...	91
1889	...	78	*Average*	...	*90*
1890	...	76	1921	...	87
1891	...	78	1922	...	87
1892	...	79	1923	...	87
1893	...	77	1924	...	86

TABLE 41.

Showing the Total Revenue and Expenditure with Surplus or Deficit in crores of Rs. (Ch. XVII).

Year.	Revenue.	Expenditure.	Surplus + or Deficit —
1861	43·2	43·6	— ·4
1862	44·4	42·9	+1·5
1863	44·0	44·3	— ·3
1864	44·8	45·3	— ·5
1865	46·0	44·6	+1·4
1866	40·9	43·7	—2·9
1867	47·9	49·0	—1·0
1868	48·6	51·3	—2·8
1869	50·0	49·8	+ ·1
1873	50·6	49·1	+1·5
1871	50·0	46·9	+3·1
1872	50·2	48·4	+2·8
1873	49·6	51·4	—1·8
1874	50·6	50·2	+ ·4
Average	*47·2*	*47·2*	......
1875	59·0	57·4	+1·6
1876	58·6	61·2	—2·6
1877	62·0	66·2	—4·3
1878	65·2	63·1	+2·1
1879	68·4	69·7	—1·2
1880	74·3	77·9	—3·6
1881	75·7	72 1	+3·6
1882	70·3	69·9	+ ·7
1883	71·8	70·0	+1·9
1884	70·7	71·1	— ·4
1885	74·5	77·3	—2·8
1886	77·3	77·1	+ ·2
1887	78·8	80·8	—2·0
1888	81·7	81·6	+ ·04
1889	85·1	82·5	+2·6
1890	85·7	82·0	+3·7
1891	89·1	88·7	+ ·5
1892	90·2	91·0	— ·8
1893	90·6	92·1	—1·5

Year.			Revenue.	Expenditure.	Surplus + or Deficit —
1894	...	...	95·2	94·5	+ ·7
1895	...	...	98·4	98·8	— ·5
1896	...	...	94·1	95·8	—1·7
1897	...	...	96·4	101·8	—5·3
1898	...	...	101·4	97·5	+3·9
Average	...	...	*79·8*	*80·0*	......
1899	...	...	102·9	98·8	+4·1
1900	...	...	112·8	110·4	+2·4
1901	...	...	114·4	107·1	+7·3
1902	...	...	116·1	111·4	+4·7
1903	...	...	125·5	121·0	+4·5
1904	...	...	127·2	121·9	+5·3
1905	...	...	109·9	106·8	+3·1
1906	...	...	109·6	107·2	+2·4
1907	...	...	106·5	106·0	+ ·5
1908	...	...	104·5	110·2	—5·7
1909	...	...	111·9	111·0	— ·9
1910	...	...	120·9	115·0	+5·9
1911	...	...	124·2	118·3	+5·9
1912	...	...	130·2	125·5	+4·7
1913	...	...	127·8	124 3	+3 5
Average	...	...	*116·3*	*113 2*	......
1914	...	...	121·7	124·4	—2·7
1915	...	...	126·6	128·4	—1·8
1916	...	...	147	135·7	+11·3
1917	...	...	168·9	156·7	+12·2
1918	...	...	184·4	190·5	—5·7
1919	...	...	195·6	219·2	—23·6
1920	...	...	206·1	232·1	—26
Average	...	...	*164·4*	*169·6*	......
1921	...	...	115·2	142·8	—27·6
1922	...	...	121·4	136·4	—15·0
1923	...	...	131·9	129·9	+ 2·0
1924	...	...	130·1	129·9	+ ·18

TABLE 42.

Showing the Incidence of Taxation in British India. *(Ch. XVII).*

(Figures in thousands).

Taxes.	1871 £.	1881 Rx.	1891 Rx.	1901 £.	1911 £.	1913 £.	1920 Rs.
Land Revenue ...	20,520	22,439	24,638	19,101	22,115	23,075	34,83,11
Salt	5,967	7,375	8,636	5,939	3,391	3,445	6,76,45
Stamps	2,476	3 381	4,262	3,446	4,815	5,318	10,95,68
Excise	2,369	3,427	5,117	4,076	7,609	8,894	20,43,65
Provincial Rates ...	...	2,895	3,502	2,743	548	180	6,33
Customs	2,576	2,361	1,701	3,833	6,468	7,558	31,89,85
Income Tax	825	536	1,652	1,369	1,652	1,950	22,19,28
Registration	...	284	399	312	445	518	1,12,03
Total ...	34,733	42,698	49,907	40,819	47,043	50,938	1,28,26,38
Deduct Refunds ...	286	272	254	224	335	336	3,23,89
Total Less Refunds ..	34 447	42,426	49,653	40,595	46,708	50,602	1,25,02,49
(Add Net Profits from Commercial undertakings).							
Railways	...	...	...	...	3,778	4,789	5,63,80
Posts and Telegraphs ...	...	...	...	...	120	326	18,34
Mint	...	...	...	...	251	207	48,02
Irrigation	...	...	...	...	−546	−504	−1,07,76
Total ...	34,447	42,426	49,653	40,595	50,321	55,410	1,30,24,89
Population in millions ...	185	198	221	231	244	245	247
Taxation per head in Rs. As. and Ps. ...	1 13 9	2 2 3	2 3 11	2 10 2	3 1 5	3 6 2	5 4 3

NOTE I :—1871 £ = Rs. 10.

1881 and 1891 Rx. = Rs. 10.

1901, 1911, 1913 } £ = Rs. 15.

NOTE II.—*On the Incidence of Taxation in recent years.*

		Crores.
1921.—Additional Central Taxation amounted to—		
Customs	... ...	8
Taxes on Income	... ...	8·5
1922.—Additional Central Taxation amounted to—		
Customs	... ...	9·64
Addition in March 1921 due to increase in Customs	...	·5
Taxes on Income	... ...	2·25
1923.— Additional Provincial Taxation amounted to—	...	1·2
80 lakhs in Bombay	... ...	...
40 lakhs in Bengal	.. ..	...
Total addition taxation in 1921 and 1922	...	30·09

We have in this way 30 crores of additional taxation for all India in the years 1921 and 1922. If we take 248 millions as the population in 1922, (the census figure for 1921 being 247 millions), we get Rs. 1-3-4 as the additional taxation per head in these two years.

	Rs.	a.	p.
The Incidence for 1920 is	5	4	3
The additional taxation in 1921 and 1922 amounts to ...	1	3	4
Therefore, the Incidence in 1922 is	6	7	7

For further remarks on this calculation see p. 534.

NOTE III.—In his speech as a member of the Commercial Deputation on Retrenchment to His Excellency the Viceroy on May 30th, 1922, Sir Purshottamdas Thakordas gave a table showing the Incidence of Taxation in India. His figures given below are in substantial agreement with those estimated above. He compared the taxation per head with the four well known estimates of the average annual income per head, referred to above. His estimates of taxation per head were as under :—

	Rs.	a.	p.		Rs.	a.	p.
1871	1	13	9	1911	2	11	3
1881	2	2	3	1913	2	14	5
1901	2	6	6	1922	6	1	·8

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(The letter *n* after figures dinotes footnote).

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